

LAT
382.91
P647

PNAL 725

THE CENTRAL AMERICAN COMMON MARKET

By
JOSEPH PINCUS

U. S. DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT



REGIONAL OFFICE FOR CENTRAL AMERICA
AND PANAMA AFFAIRS

September, 1962

A.I.D. HISTORICAL AND
TECHNICAL REFERENCE
ROOM 1856 NS

LAT CENTRAL AMERICAN COMMON MARKET
382.91 Pincus, Joseph
P647 The Central American Common Market. Mexico,
AID/Regional Technical Aids Center. 1962.
231 p.
Below title: Regional Office for Central
America and Panama Affairs.

1. Central American Common Market. 2. Economic
policy - Central America. 3. International
economic integration. I. Regional Office for
Central America & Panama Affairs.

I. INTRODUCTION

Historical Background

Efforts to achieve Central American economic union, which began in the early 1950's, constitute a continuation of a regional unification movement which dates back to 1821 when the area gained its independence from Spain. ^{1/} As of March 31, 1962, the Central American integration program was being conducted under the provisions of three separate treaties: (1) the Multilateral Treaty of Central American Free Trade and Economic Integration, signed in 1958 by all five countries and ratified by all but Costa Rica; (2) the Treaty of Economic Association, signed by Guatemala, El Salvador, and Honduras in February 1960, and in effect among those countries since April 27, 1960; and (3) the General Treaty of Central American Economic Integration, signed by all the countries except Costa Rica in December 1960, and in effect since June 3, 1961. The Costa Rican regime which assumed power in May 1962 has expressed to the Permanent Secretariat of the General Treaty its intention to adhere to that treaty. Since 1958, work has been progressing on the formulation of a common external tariff for Central America, and many uniform rates of duty already are in effect among Guatemala, El Salvador, and Nicaragua. Completion of a uniform import tariff for the participating countries was expected to be achieved during 1962.

^{1/} Panama, whose territory was part of Colombia until November 3, 1903 has not been closely integrated into the tradition of regional union which has been common to the other five countries of the Central American isthmus. However, Panama has been invited to participate in the current economic integration program for Central America, and it has sent observers to the various conferences dealing with the integration scheme. For other Panamanian participation, see Appendix X.

For almost 300 years before gaining its independence from Spain (1527-1821), the area which now comprises the republics of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica, constituted part of the captaincy-general of Guatemala. The captain general was represented in each of the provinces by a governor. During this colonial period, the geographically isolated centers of population and culture in each province developed intense localist sentiments which often produced friction between the local authorities and those of the central government. Despite this friction, it was only after the achievement of independence by Mexico that a similar movement was sparked in Central America.

Both liberal and conservative elements took part in a declaration of Central American independence from Spain in 1821. The conservatives feared a loss of their prerogatives if the liberals obtained control of the government. The conservatives, whose influence and privileges in Spain were being jeopardized by the adoption of a new, liberal constitution, sought to salvage their position in Central America by gaining control of its independence movement. 1/

The struggle between liberals and conservatives for control in Central America produced a conservative revolt which, supported by Mexican troops and with the hasty approval of the municipal councils, brought the five Central American provinces into a short-lived union with Mexico (1822-23) under Iturbide's Plan of Iguala. 2/ When the politically ambitious Iturbide was driven from power in February 1823, Central America separated peacefully from Mexico and sought to establish a federation. Under the intellectual leadership of Jose Cecilio del

1/ Dana Gardner Munro, The Latin American Republics: A History. New York, 1942, pp. 471-72.

2/ The Plan of Iguala of February 24, 1821, provided that Mexico should become a constitutional monarchy ruled by a Bourbon prince selected by the Mexican "cortes". It also guaranteed the position of the Catholic Church, the maintenance of Mexican independence, and the establishment of racial equality.

Valle and the politico-military leadership of Francisco Morazan, Central America was more or less unified as the United Provinces of Central America during the period 1824-38. The federal form of government that was adopted provided for a centralized executive, but with relatively autonomous regional governments. However, factional and regional dissensions so weakened the federation that Morazan's attempts to hold it together by force failed. Some 25 unsuccessful attempts to achieve Central American union have occurred during the past century and a quarter. ^{1/} Certain of these efforts included casual provision for economic cooperation. However, the idea of political union dominated all of these unification movements; virtually all of them fell short of full area participation; and in those cases where union actually was achieved, its duration was very brief.

A review of Central America's history since 1821 reveals that unionist sentiments were strongest in the weak republics of the region - El Salvador, Honduras, and Nicaragua; Guatemala favored unification only under its own hegemony; and Costa Rica, which by virtue of its geographic remoteness, had been successful in avoiding involvement in the internecine conflicts of the region, was largely separatist in its outlook. This attitude of Costa Rica was fortified by the fact that its population differed ethnically from that of the rest of Central America. In Costa Rica, the Indians had largely disappeared during the early years of Spanish rule, and the country's industrious, individualistic European population of small landowners tended to hold separatist feelings with respect to the peoples of the other Central American countries.

The political instability generated during the federal period unfortunately became a regional tradition which has carried over into the contemporary political

^{1/} Thomas L. Karnes, The Failure of Union: Central America, 1824-60. Chapel Hill; No. Car., 1961, p. 253.

history of these republics. Personal affiliations and group political alliances and enmities formed during the federal period persisted long after the union was dissolved; liberals and conservatives in most countries continued to support their associates in the others.

The measures taken to unify Central America after World War II have had the economic integration of the region as their objective; political union has been in abeyance. ^{1/} Personal, party, and local rivalries have militated against successful political federation since independence. On the other hand, there appears to be general agreement on the part of Central American leaders that economic unification is in the common interest and that, with the assistance of external technical and financial resources, it may be achieved within a five-or-ten-year period.

Regionalism and Economic Development

What has been called the "revolution of rising expectations" has captured the minds of men in nearly all countries of the free world since World War II. This revolution has generated a two-fold awareness in the underdeveloped countries, of (1) their inability to achieve desired economic goals solely by their own efforts, and (2) the fact that foreign economic aid alone has not been adequate to overcome such obstacles to their development as inadequate and maldistributed incomes, small markets, lack of entrepreneurial skill and initiative, inadequate capital formation, and political instability. Nevertheless, external assistance is facilitating the development of improved transportation facilities

^{1/} Nevertheless, as recently as July 1961, the Guatemalan Minister of Foreign Relations reportedly recommended that the Organization of Central American States (ODECA) be reorganized for the purpose of establishing a Federal Union of Central America (Union Federal de Centroamerica). This recommendation was made during a meeting at Tegucigalpa of the Ministers of Economy and of Foreign Relations of Central America and Panama. (Mexico, Banco Nacional de Comercio Exterior, S.A., Comercio Exterior de Mexico, August 1961, p. 493 (Spanish edition).)

power installations, and communications, systems in many regions of the world. Orderly economic growth is being sought through the establishment by governments of regional associations for economic cooperation. These attempts reflect a determination to increase employment, productivity, and trade at rates higher than the rate of population growth.

The current Central American effort to establish a common market represents a pioneer venture in economic integration among the underdeveloped countries of the free world. According to the UN Economic Commission for Latin America (ECLA), its purpose is "to overcome the limitations and obstacles to Central American development arising from the limited resources and market expansion opportunities which characterize the economy of every Central American State."^{1/} Such development is to be accomplished by broadening the market, establishing manufacturing plants capable of supplying the larger market, providing tariff protection for Central American industries, improving public works (transportation, communications, and power), and increasing agricultural productivity.

^{1/} United Nations, Economic Commission for Latin America, Central American Economic Integration and Development (E/CN.12/586), 28 March 1961, p.1.

II. ECONOMIC BACKGROUND OF CENTRAL AMERICAN INTEGRATION

This chapter contains basic information respecting the economies of the five Central American countries (excluding Panama). It also discusses the scope of the regional economic integration program and how the participating countries hope to overcome, by joint action, those conditions which inhibited their economic growth.

General Characteristics of the Economy

Area and Population

The five Central American countries have a combined area of about 170,000 square miles, which is somewhat larger than that of California. In 1960, their aggregate population of nearly 11 million approximated that of New England and was slightly larger than that of Belgium. The rate of population increase during the decade 1950-60 was approximately 3.4% annually (about the highest rate in the world); during the next decade it is expected to decline to about 3% a year because of increasing urbanization, rising family incomes, and opportunities for students to remain in school for longer periods.

As shown in Table I, the density of population varied markedly among the five countries, ranging from 27 persons per square mile in Nicaragua to 319 in El Salvador; the regional average was 65 in 1960. Within these countries the distribution of population has been very uneven. Typically, there are a few centers of population--usually on the central plateau and at the major ports--and large, relatively uninhabited, areas between. An economic consequence of such scattered population centers in an area of mountainous terrain has been high costs of marketing and transportation, even of locally produced goods, and maldistribution of available resources among the various zones of particular countries. As a corollary, border trade between neighboring areas of certain

countries has been much more important to those areas than trade with more distant areas within the respective countries.

TABLE I.

Central America: Population, area and density
of population, 1960 and population growth rate, 1950-60

Country	Population 1960	Area	Density of Population	Population Growth Rate 1950-60
	<u>Thousands</u>	<u>Square Miles</u>	<u>Inhabitants Per Square Mile</u>	<u>Percent Per Year</u>
Costa Rica-----	1,173	19,700	60	4.0
El Salvador-----	2,613	8,200	319	3.5
Guatemala-----	3,759	42,042	89	3.1
Honduras-----	1,950	43,200	45	3.3
Nicaragua-----	1,530	57,000	27	3.7
Total-----	11,025	170,142	65	3.4

Source: Agency for International Development, Economic Data Book for the
Countries of Latin America, (data issued when received).

The Central American market for commercial products is substantially smaller than a population of 11 million would indicate, since only about one-third of the people are in the labor force 1/ and, in most of the countries a sizable proportion of the population lives either outside of or on the margin of the monetary economy. Only about 8.4 million, or some 77% of the area's population, possess effective purchasing power.

Labor Force

Within the five countries of Central America, there has been a very marked urbanization trend over the past 15 years. According to an ECLA study of the relationship of urban population growth to per capita gross national product in Central America during the period 1945-55, the urbanization rate in Central

1/ Based on 1950 data.

America, as in Latin America as a whole has borne a high direct correlation to the per capita GNP. ^{1/} This interdependence has been partly reflected by the large difference between the average productivity per worker in agriculture and that in other types of economic activity. (Table II). More important, however, has been the actual reduction in plantation activities which has forced agricultural laborers to seek elsewhere for their livelihoods.

TABLE II.

Central America: Indices of productivity of labor,
by sectors, in Latin America and in selected countries of
Central America, 1950

(Average gross product per employed person - 100)					
Sector	: Latin : : America :	Costa Rica	: : Honduras :	: : El Salvador :	
Agriculture-----	46	81	74	68	
Mining-----	410	-	124	224	
Manufacturing---	126	111	112	104	
Construction----	122	84	47	190	
Services and other----	175	135	234	179	

Source: UN, ECLA, Economic Bulletin for Latin America, February 1957, p. 26; and UN Department of Economic and Social Affairs, Análisis y Proyecciones del Desarrollo Económico: VIII: El Desarrollo Económico de El Salvador, 1959, p. 47.

Inasmuch as the plantation (coffee, banana) workers usually earned substantially more than other agricultural laborers, they could find--or expected to find--equal or better standards of living only in the urban centers. ^{2/} The urbanization trend has reflected largely a movement of agricultural labor into manufacturing and service activities (transportation, distribution,

^{1/} "Changes in Employment Structure in Latin America", UN, ECLA, Economic Bulletin for Latin America, Vol. II, No. 1, February 1957, p. 16.

^{2/} Although remuneration in mining has been relatively high, this industry employs less than half of one percent of the total Central American labor force.

domestic service, etc.). ECLA has forecasted a continuation of the urbanization trend through 1980 (Table III).

Thus far, the average annual rates of industrialization of the Central American countries have been less than the rates of growth in population. Government development policies not only have failed to relieve unemployment originating in other sectors of the economy, but they also have been unsuccessful in providing a sufficient number of jobs to absorb the vegetative growth of the urban labor supply. ^{1/} Increasing unskilled population and growing unemployment have inhibited the development of factory production and to permit the continuation of inefficient household industries.

TABLE III.

Central America: Distribution of the urban and rural population
by country, in 1950 and projections through 1980

Item	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
Urban					
1950-----	25	36	31	35	33
1960-----	27	40	32	38	35
1970-----	30	46	36	42	40
1980-----	33	54	41	48	47
Rural					
1950	75	64	69	65	67
1960	73	60	68	62	65
1970	70	54	64	58	60
1980	67	46	59	52	53

Source: UN, ECLA, Los Recursos Humanos De Centroamerica, Panama Y Mexico
En 1950-1980... (E/CN. 12/548)

^{1/} See UN, Department of Economic and Social Affairs, Analises y Proyecciones del
Desarrollo Economico: VIII: El Desarrollo Economico de El Salvador. Mexico, 1959, p.58.

Recent ECLA projections 1/ of the Central American population and labor force through 1980 are shown in Table IV. The growth of population, at the intermediate rates for each country 2/, reflects the effects of increased education and urbanization, with resulting smaller families. The labor force, especially the nonagricultural sector, expected to increase more rapidly than the total population (see Tables IV and V).

1/ The study was prepared for the ECLA by Louis J. Ducoff of the Economic Research Service, U.S. Department of Agriculture, Technical Assistance Program of the United Nations.

2/ The annual average growth rates used to project population growth between 1950 and 1980 are as follows:

	<u>Intermediate</u>	<u>High</u>	<u>Low</u>
Costa Rica-----	2.66	3.16	2.19
El Salvador-----	2.19	2.69	1.73
Guatemala-----	2.43	2.95	1.94
Honduras-----	1.99	2.47	1.54
Nicaragua-----	2.43	2.94	1.95

TABLE IV.

Central America: Population and labor force, by country, 1950 and
projections through 1980

Item	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	Total Central America
Total population:						
1950-----	2,802.4	1,855.9	1,428.0	1,057.0	804.8	7,948.1
1955-----	3,145.9	2,076.3	1,566.9	1,196.5	923.9	8,909.5
1960-----	3,542.2	2,321.3	1,726.8	1,354.0	1,058.4	10,002.7
1965-----	4,001.5	2,589.6	1,906.5	1,529.1	1,208.1	11,234.8
1970-----	4,525.4	2,877.0	2,105.7	1,718.9	1,373.7	12,600.7
1975-----	5,111.2	3,195.0	2,328.1	1,930.8	1,558.7	14,123.8
1980-----	5,759.4	3,555.8	2,576.6	2,172.1	1,768.3	15,832.2
Labor force:						
1950-----	919.5	653.7	508.6	351.3	277.5	2,710.6
1955-----	1,047.9	727.3	556.7	398.5	316.8	3,047.2
1960-----	1,191.4	810.9	620.6	451.4	361.7	3,436.0
1965-----	1,351.1	912.5	701.3	511.9	414.8	3,891.6
1970-----	1,534.5	1,039.7	792.0	588.2	477.9	4,432.3
1975-----	1,747.9	1,178.9	893.4	673.7	549.7	5,043.6
1980-----	1,993.2	1,328.8	1,006.1	764.8	627.7	5,720.6
Ratio of labor force to total population:						
1950-----	33	35	36	33	35	34
1980-----	35	37	39	35	36	36
Annual rates of growth, 1950-1980:						
a) in total population--	2.4	2.2	2.0	2.4	2.7	
b) in labor force-----	2.6	2.4	2.3	2.6	2.8	
(a) Agricultural----	2.1	1.3	1.9	1.9	1.8	
(b) Nonagricultural--	3.6	3.7	3.9	3.8	3.7	

Source: UN, ECLA, E/CN, 12/548, 1960, pp. 52-55. Data are for the intermediate projection, i.e. neither the high nor the low rate was used. The labor force data for Honduras were adjusted to compare with the definitions employed in the other countries.

TABLE V.

Central America: Distribution of the labor force
among agricultural and nonagricultural employments,
by country, 1950 and projections through 1980.

(In percentages)

Year	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
Agricultural employment					
1950-----	68.1	63.1	83.1	67.7	54.7
1955-----	66.8	61.2	83.0	66.2	54.0
1960-----	65.4	59.3	81.8	64.7	53.3
1965-----	63.8	56.4	80.2	62.8	50.7
1970-----	62.1	53.4	78.5	60.8	48.0
1975-----	60.0	49.4	75.8	57.8	44.4
1980-----	57.8	45.4	73.0	54.7	40.8
Nonagricultural employment					
1950-----	31.9	36.9	16.9	32.3	45.3
1955-----	33.2	38.8	17.0	33.8	46.0
1960-----	34.6	40.7	18.2	35.3	46.7
1965-----	36.2	43.6	19.8	37.2	49.3
1970-----	37.9	46.6	21.5	39.2	52.0
1975-----	40.0	50.6	24.2	42.2	55.6
1980-----	42.2	54.6	27.0	45.3	59.2

Source: UN, ECLA, E/CN. 12/548, 1960, p. 51.

As a consequence of this situation, substantially expanded opportunities of large-scale employment are needed. In this connection, the integration program will have to provide for shifting surplus labor from areas of scarce employment opportunities to those offering better prospects. The size of the task will be substantial indeed; according to an ECLA-sponsored study, for every male worker leaving the Central American labor force, three replace him. (Table VI)

According to the population expert, Louis J. Ducoff, unless the economic development of the Central American countries were to be accelerated during the decade 1960-1970, the problem of surplus labor would become even more acute than it did in the preceding decade; declining death rates and better health conditions would tend to reduce the number of departures from the labor force.^{1/}

The prospect of an increasing surplus labor force in Central America has raised serious questions as to the amounts of investment and types of technologies to be applied if the labor force were to be efficiently employed. It remains to be seen whether labor-intensive activities will receive priority in national and regional development plans, and whether sufficient government funds for education and health programs will be forthcoming to increase the productivity of the labor force.

^{1/} This would be only partially checked by increased school registrations and the anticipated lengthened periods of study for persons in the 10 to 14-year age group.

TABLE VI.

Central America: Estimated replacement rate of the male
labor force, aged 15-69, by country, 1950-1960

Country	(In thousands)			
	Number of	Number	Number	Replacement
	men aged	of additions	leaving	
	15 to 69 in 1950	during the decade	during the decade	
Guatemala-----	783.5	345.6	130.2	2.66
El Salvador-----	512.8	233.7	72.8	3.21
Honduras-----	385.4	166.3	68.8	2.42
Costa Rica-----	213.5	104.0	27.3	3.83
Nicaragua-----	277.0	142.0	44.5	3.19
	2,177.2	991.6	343.6	2.89

1/ Additions to the labor force divided by the number leaving it during the decade. The result shows the number of laborers entering per worker leaving through death or retirement.

Source: UN, ECLA, Los Recursos Humanos De Centroamerica, Panama Y Mexico En 1950-1980, y sus relaciones con algunos aspectos del desarrollo economico (E/CN. 12/548), 1960, p. 78.

National income and its distribution

In 1960, the total value of goods and services produced in Central America amounted to \$2.3 billion. The accompanying level of economic activity provided an income approximating \$200 per person--a level roughly one-tenth of the average in the United States. The distribution of total and per capita national product by countries in 1960 was as follows:

<u>Country</u>	<u>National product</u>	<u>Per capita product</u>
	(<u>million dollars</u>)	
Costa Rica-----	487	\$406
El Salvador-----	510	195
Guatemala-----	613	163
Honduras-----	377	192
Nicaragua-----	275	183
Total or average-----	2,262	\$208

The distribution of the national product compared with that of the labor force (Table VII) reveals the very low productivity in agriculture (including pastoral and forest activities), the major sector of the Central American economy. Although 69 percent of the labor force was employed in agriculture, they produced only 46 percent of the gross national product (GNP) in 1950. By contrast, the 14 percent of the labor force engaged chiefly in construction and service activities (other than commerce, transportation, and communications), produced 22 percent of the GNP.

Even among the gainfully employed population, the uneven distribution of income--which characterizes all the Central American economies--has restricted the kinds and quantities of commodities that could be sold. Inasmuch as any significant increase in the aggregate income of any of these countries accrues largely to a minor share of the entire population, and since this small sector of the population tends to spend its incremental income on

imports, the growth of national markets for domestic manufactures is limited. In El Salvador, for example, where the disparities in income are probably wider than elsewhere in Central America, in 1950 less than eight percent of the families were the recipients of more than half of the country's gross national product. 1/

1/ United Nations, Technical Assistance Mission, Suggestions for the Development of El Salvador, 1953.

TABLE VII.

Central America: Distribution of the labor force and the national income, by countries and economic sectors, 1950 ^{1/}

(In percentages)							
Activity	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Regional total	
Agriculture:							
Population-----	55	63	67	83	68		69
Income-----	44	45	46	53	41		46
Manufacturing:							
Population-----	11	11	12	6	11		11
Income-----	13	15	20	9	14		16
Commerce:							
Population-----	8	6	4	1	5		4
Income-----	12	18	9	9	11		12
Transport and communications:							
Population-----	4	2	2	1	2		2
Income-----	5	2	5	6	4		4
Other:							
Population-----	22	18	15	9	14		14
Income-----	26	20	20	23	30		22

^{1/} Population data are taken from the 1950 census.

Source: U.S. Department of Commerce, Investment in Central America, Washington, D. C., 1956, p. 14, individual country data shown in that study; and Republica de Guatemala, Direccion General de Estadistica, Sexto Censo de Poblacion, Abril 18 de 1960, p. 231

This unequal distribution of income has been one of several factors that have restricted industrial production in the five countries to a few small-scale operations supplying essential consumer goods for the low-income portion of the population (clothing, and other textiles, shoes, beverages, matches, tobacco products, and the like) and has inhibited the development of industries producing manufactured products for export. The high-income groups have preferred to obtain many of their consumer goods, including most luxuries, by importation, because of the superior quality and wider variety of the imported products or the "status" indicated by possession of such items. Since "economies of scale" (i.e. cost advantages of large-scale production and marketing) are rarely achieved under circumstances governing most manufacturing activities in Central America, and production costs, especially capital costs, are high, there has been a tendency for prices of domestically produced items to approximate the high prices of competitive imports. Competition from imports has often been restricted by high tariff duties, as well as by cumbersome customs procedures.

Despite the existence of a captive market in Central America--consisting of the majority of the population unable to afford imported goods--the entry of new firms to supply this market has been very slow. The small populations of the individual countries, combined with the low average incomes of the people as a whole, have created a situation wherein one firm or a few small producers are able to supply the limited demand for their products. Competition is usually found among sellers of imported goods, since profit margins for these items are so high that some bargaining between merchants and consumers is possible.

A further limitation on the development of local manufacturers in Central America is the widespread practice of granting duty free import privileges to concessionaires (companies, institutions, or individuals). Although the raw materials

bases for certain industries exist in the respective countries, the supply of duty-free imports entering by virtue of these concessions is believed to have effectively prevented the establishment of many such industries. Examples suggested by the Honduran experience are shown in Table VIII. In 1960, duty-free imports entering Honduras under concessions constituted about one-fifth of the total c.i.f. 1/ value of imports.

1/ Cost, insurance and freight.

TABLE VIII.

Honduras: Share of selected imports entered free of duty by special concession, 1957

Commodity	Value of Imports	Duties paid		Duties exempted from payment
		Amount	Ad valorem equiva- lent	
	<u>1,000</u> <u>U.S.</u> <u>dollars</u>	<u>1,000</u> <u>U.S.</u> <u>dollars</u>	Percent	
Cookies of all kinds-----	170	38	23	98
Cottonseed oil-----	48	1	2	23
Chiclets and other chewing gums-----	145	35	24	131
Prepared paints-----	352	86	24	74
Prepared cattle and horse hides, n.e.s.-----	461	1	1/	63
Boxes, chests, crates, barrels and kegs for packing, and similar wooden items, assembled or not, or partially assembled (including match boxes-----	37	1/	1	19
Ropes, cords, and cables of whatever textile fiber-----	552	9	2	129
Bags and sacks for packing, new or used, of whatever textile fiber, with or without printing-----	470	11	2	559
Construction materials, n.e.s., of asbestos, (including wood shavings and sawdust), cement, gypsum, asphalt, vegetable fibers, mixed with cement, gypsum, asphalt or other mineral aglutinants; granulated marble mixed with cement, and other nonmetallic materials, crude including mixed, such as fibrocement in: the form of bricks, paving tiles, roof tiles, columns, tubes, and other similar con- struction forms-----	237	12	5	24

1/ Less than \$500.

Source: Based on official Honduran statistics for 1957

Although the elimination of duty-free import privileges might result in somewhat higher production costs in the export activities (the principal beneficiaries) of these countries, a careful investigation would be required in order to determine how significant the cost increase might be compared with the presumed advantage to be gained from increasing industrialization and stimulating fuller utilization of the region's resources. Wages and employment in the export sector of the Central American economies have generally been higher than those in other sectors, so that moderate price increases in consumer goods might not seriously affect the standard of living of persons engaged in production for export. To the extent that efficient local industries were established as a result of wider market opportunities, the actual increase in cost to the concessionaries would be slight.

Capital formation

The rate of gross capital formation in the individual Central American countries moved within narrow limits during the past decade, but showed a tendency to decline somewhat since 1956 (Table IX).

TABLE 1X.

Central America: Relation of gross capital formation
to gross national product, by country, 1950-59

(In percent of gross national product, at current market prices)

Year	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
1950-----	18	11	10	14	1/
1951-----	25	13	11	16	1/
1952-----	20	12	8	19	1/
1953-----	22	13	9	17	1/
1954-----	21	15	9	13	1/
1955-----	21	16	11	14	1/
1956-----	22	20	15	15	1/
1957-----	20	17	15	14	1/
1958-----	17	15	15	13	6
1959-----	18	15	14	13	6

1/ Not available.

Source: UN, ECLA, Economic Bulletin for Latin America, Vol. IV, No. 2, October 1959, pp. 63-64; Agency for International Development, Economic Data Book for the Countries of Latin America; and UN, ECLA, Análisis y Proyecciones del Desarrollo Económico: VIII: El Desarrollo Económico de El Salvador, Mexico, D. F., 1959, p. 36, Table 23.

In recent years, the Central American countries have recognized the imperative need for developing an enterprising entrepreneurial group in order to increase the rate of domestic capital formation. The development of such a group is expected not only to generate increasing investment from local sources, but to attract foreign capital as well. Up to now, the entrepreneurial group has been small and the bulk of domestic private investment has been made by wealthy landholders who have selected the most promising and least risky situations in their respective countries usually for small-scale investments, while the bulk of their liquid funds has been invested or deposited abroad.

Banking facilities in Central America have been grossly inadequate for financing activities other than agricultural production for export. Medium- and long-term credits have been extremely difficult to obtain in the five countries, and have been granted in the main to a small preferred group whose tangible assets or political influence has made such loans bankable from the viewpoint of Central America's credit institutions.

As is characteristic of countries in the early stages of economic development, there has been in Central America an increasing tendency for the major share of gross investment to go into building construction rather than into the acquisition of machinery and equipment. Statistics available for Honduras for the years 1950-55 show that investment in machinery and equipment accounted for less than 30 percent of total investment during that period, whereas the remainder went into construction activities. Moreover, about 40 percent of the aforementioned 70 percent that went into construction went into buildings--residential and nonresidential--while only 30 percent of it went into "other construction and works." The shortage of risk capital, i.e., capital for investment other than in real estate, has played an important role in impeding industrialization in Honduras, and this has been true to a greater or lesser extent in the other Central American countries as well.

Given their limited capital resources and slow rate of capital formation, the five countries must maximize the short-run effects of investments on their economic development if they are to generate a higher rate of capital formation in the long run. The Central American states and the United Nations Economic Commission for Latin America (ECLA) believe that these goals may be accomplished best by an integrated regional development program. According to ECLA, "Such a view presupposes that each country has formulated its national development

plans as a coordinated whole, that a high degree of coordination in the matter of economic policy will be gradually evolved... The coordination of plans and programs will not mean that the tempo of development in the different countries will be subordinated to plans for the area as a whole....but merely that activities in the various sectors will be concerted so that public and private investments are made in the right form and (at) the right time, thus affording their maximum possible yield." 1/ The development of roads, highways, airfields, electric power installations, communications, and similar facilities, the avoidance of competition through specialization of production and a balanced distribution of new industries, provision of adequate and uniform tax incentives, and the establishment of regional institutions for financing and granting technical assistance to projects of a regional nature, are part of a projected unified effort to overcome the problem of inadequate capital formation.

Agricultural, pastoral, forest, and fishing industries

Agriculture, together with the pastoral, fishing, and forest products industries, is the mainstay of the five Central American economies. For the area as a whole these industries employ more than 60 percent of the labor force and, although their relative contribution to the gross national product declined in recent years, in 1960 they still contributed nearly half of the region's total. Central America traditionally has depended upon exports of agricultural products (chiefly coffee and bananas) for the bulk of its foreign exchange earnings. As a corollary, the processing of agricultural, pastoral, fishery, and forest products has offered a base for Central American industrial development; moreover, the best prospects for diversifying its exports lie in the increased output of such primary products as meat, lumber, and seafood.

Within the agricultural sector of the Central American economy, three types of activity may be delineated; (1) Peasant farming, based on the cultivation of corn and beans on marginal lands unsuited to coffee growing; (2) small-form cultivation of commercial crops (including coffee, cotton, sugarcane, sesame, rice, citronella and lemon grasses, and hard fibers, and the raising of livestock (especially cattle); and (3) plantation agriculture; principally the cultivation of bananas, in the tropical coastal areas of Guatemala, Honduras, and Costa Rica. The plantation type of agriculture is controlled largely by the two U.S.-owned fruit companies which started their operations in Central America around the turn of the twentieth century. These companies also grow cacao, African oil palm, and coconuts in one or more of the countries.

Despite the preponderant importance of agriculture in the economy of each of the five countries in the area, the industry is characterized by very low productivity (particularly in the nonexport crops), improper utilization of land and manpower, and high transportation and marketing costs. In all these countries except El Salvador, where agricultural land is at a premium, relatively small proportions of their total area are suitable for agriculture under the existing state of the arts in the region.

Statistics compiled by the Agency for International Development (AID) show (Table X) that the proportions of total land area suitable for agriculture, in 1960, were: El Salvador, 58 percent; Honduras, 25 percent; Guatemala and Costa Rica, 19 percent each; and Nicaragua, 10 percent. No reliable data on the acreages actually under cultivation are available for recent years. On a per capita basis, available agricultural land in 1960 amounted to 4 acres per person in Honduras, 3 acres in Nicaragua, 2 acres in both Guatemala and Costa Rica, and

1 acre in El Salvador. In all five countries a large proportion of the farm land has been held by a small percent of total farm units, as shown in the following tabulation:

<u>Country</u>	<u>Percent of total farm units</u>	<u>Percent of farm land held</u>
Costa Rica-----	0.2	35
El Salvador-----	.1	20
Guatemala-----	.2	41
Honduras-----	.1	21
Nicaragua-----	.7	33

Crops.--According to studies made for ECLA, the condition of self-sufficiency in staple foodstuffs (rice, beans, and corn) which characterized the Central American area through 1953, in subsequent years had changed into a situation of chronic shortage and declining availabilities per capita. As a result, Central American imports of food supplies from outside the area had increased. Although excessive rainfall was primarily responsible for creating shortages during the years 1954-57, such shortages were also attributable to a lag in the application of agricultural technology (manual sowing; faulty irrigation and crop rotation practices; use of unimproved seed; inadequate application of fertilizer and insecticides) resulting partly from the fact that these food crops generally are grown on small tracts (under 12 acres each). Consequently output per farm has been under 3 tons for any of these crops. The ECLA technicians recommended that increased output should be sought primarily in the application of technology and improved methods of cultivation, and secondarily through increases in the acreage under cultivation. 1/

1/ El Abastecimiento de Granos en Centroamerica y Panama, (E/CN.12/CCE/119),

14 April 1958/

TABLE XO

Central America: Agricultural land in relation to total area, by country, 1960

Country	Area		Agricultural land (thousands of acres)	Percent of total area	Acres per capita	Main agricultural and pastoral products
	(in square miles)	(thousands of acres)				
Costa Rica-----	19,700	12,608	2,396	19	2	Bananas, coffee, cocoa sugar, corn, rice and beans; cattle
El Salvador-----	8,200	5,248	3,044	58	1	Coffee, cotton, sesame, balsam, corn, sorghum, beans, sugarcane, rice, and henequen.
Guatemala-----	42,042	26,907	5,078	19	2	Coffee, bananas, corn, beans, wheat, rice, sugarcane, pota- toes; dairy products
Honduras-----	43,200	27,648	6,912	25	4	Coffee, bananas, abaca, coconuts, corn, sugarcane, sorghum, and beans; tobacco; & livestock
Nicaragua-----	57,000	36,480	3,648	10	3	Cotton, coffee, sesame, sugarcane, rice, corn, beans, sorghums, cocoa, yuca, tobacco, and bananas.
Total-----	170,142	108,891	21,078	19	2	

Source: Agency for International Development, Economic Data Book for the countries of Latin America

According to ECLA findings, increased demand during the 10-year period ending in 1966 would be basically a function of population growth; Central American demand for rice, corn, and beans is relatively inelastic with respect to both price and income changes and there is considerable resistance to accepting other commodities as substitutes.

ECLA projections for the years 1958-66 forecast a regional surplus by the end of that period in all major food crops cultivated in the area (Table XI). ^{1/} By 1966, Costa Rica and Guatemala were expected to have shifted from net importers to net exporters in these grains. Only El Salvador, with its scarcity of land, was to remain a net importer but its supplementary requirements for corn and beans were expected to be supplied easily by imports from its traditional suppliers, Honduras and Nicaragua; these two states are also the traditional grain exporting countries in the region.

The proposal that Central America's grain (including bean) requirements be met from regional production appears to be technically and economically feasible. The major problems are those of (1) increasing the output of commercial agriculture, since a large number of small farmers produce only for their own consumption; (2) getting the available supplies to market, since lack of adequate transportation facilities has resulted in a large loss of output; (3) developing adequate storage and distribution facilities so that farmers may obtain a reasonable return for their labor; and (4) achieving greater specialization of production in those grains which are in short supply. These problems are being studied by ECLA, which has the objective of transforming Central American agriculture into a single productive unit in the world market and coordinating its

^{1/} ECLA technicians include beans along with rice and corn in their discussion of grains; actually beans are legumes and not grains.

TABLE XI.

Central America and Panama: Projected output, trade, and requirements 1/
for corn, beans and rice, (assuming regional self-sufficiency in these
commodities) 1966

(In thousands of metric tons)

Country	Corn			Beans			Rice		
	Output	Net trade	Requirements	Output	Net trade	Requirements	Output	Net trade	Requirements
Costa Rica-----	93.7	-9.9	83.8	19.7	-0.8	18.9	39.7	-1.0	38.7
Guatemala-----	522.2	-85.0	437.2	34.0	-1.3	32.7	14.4	-0.2	14.2
El Salvador-----	168.0	+11.4	179.4	32.1	+8.4	40.5	33.5	-0.4	33.1
Honduras-----	251.6	-54.6	197.0	31.1	-7.8	23.3	15.4	-0.4	15.0
Nicaragua-----	188.1	-52.0	136.1	45.3	-3.5	41.8	24.2	-0.7	23.5
Subtotal-----	1,223.6	-190.1	2/1,033.5	162.2	-5.0	157.2	127.2	-2.7	124.5
Panama-----	91.6	-19.1	72.5	9.3	-0.4	8.9	79.7	-4.6	75.1
Total-----	1,315.2	-209.2	3/1,106.0	171.5	-5.4	166.1	206.9	-7.3	199.6

1/ The projected population and per capita availabilities in 1966 are as follows:

Country	Population	Quantity per capita		
		Corn	Beans	Rice
		kg	kg	kg
Guatemala-----	4,302,551	84.8	7.6	3.3
El Salvador-----	2,757,155	52.5	14.7	12.0
Honduras-----	2,022,007	80.2	11.5	7.4
Nicaragua-----	1,643,885	62.6	25.4	14.3
Costa Rica-----	1,293,374	37.8	14.6	29.9
Total-----	12,018,972	68.5	13.0	10.3

2/ Including 210.0 metric tons for animal feed
3/ Includes 250.0 metric tons for animal feed

Source: E/CN.12/CCE/119, 14 April 1958, pp 27,34,92,105,111.

Note: For net trade, net exports take a minus sign and net imports take a plus sign

trade policy. 1/

Undoubtedly, difficulties will be encountered in attempting to channel the activities of large numbers of small growers ("la Población Minifundista") into specialized crop production and to change their methods of cultivation. As the small farmers generally have little access to the banking system, credit policy probably would not be a very useful tool for this purpose. On the other hand, land distribution could provide an effective lever for changing production habits, provided such distribution were accompanied by programs of education and demonstration, and offers of credit contingent upon the grower's compliance with specified conditions.

Pastoral products.--Cattle raising, although an established part of Central America's agricultural economy, has suffered from improper utilization of the available grazing lands and inefficient animal husbandry practices. Calf mortality has been high and the animals have suffered not only from inadequate feeding, especially during the dry season, but also from tick and disease infestations. With the help of United States and other foreign technicians, in recent years steps have been taken to remedy this situation. Considerable progress has been made in the establishment of slaughterhouses and milk plants, often with foreign capital invested by owners interested in the export market. The growth of such investment, combined with the need to provide products acceptable in foreign markets, and reinforced by possible improvements in the local diet as incomes rise, may be expected to exert a salutary influence on the Central American livestock industry.

Lumber.--Lumbering is of considerable economic importance to Central America. With the exception of El Salvador, more than half of the region's

1/ "Central American Economic Integration Programme: Evaluation and Prospects", in UN, ECLA, Economic Bulletin for Latin America, Vol. IV, No. 2, Oct. 1959, p. 41.

land area is covered by forests, located chiefly on mountains bordering the Caribbean Sea and in valleys of rivers leading into the Atlantic Ocean.

Although many parts of Central America are covered with tropical rain forests, the scattered distribution of individual hardwood timbers and their inaccessibility have inhibited wide commercial exploitation. Nevertheless, exports of mahogany and Spanish cedar ^{1/} from Honduras and Nicaragua have long been important to the trade of those countries, and the pine forests of Honduras may some day provide the raw materials for a sizable pulp and paper industry.

Fishery products.--In recent years, interest has been shown in developing fish-freezing and fish-canning plants in Central America. With its long coastlines on the Caribbean Sea and the Pacific Ocean, Central America is afforded adequate opportunities for exploiting seafood resources. The possibilities for shrimp fishing and exportation are particularly good, as was evidenced by the sharp rise in U.S. imports of shrimp from Central America from 43,000 pounds in 1954 to 3 million pounds in 1959.

Mining Industries

Although of major importance in the colonial period, mining in Central America has become relatively unimportant in recent decades. It employs a small part of the total labor force and contributes minor amounts to the gross product of the region. Central America's output of minerals therefore is small; in general, known deposits are being worked at increasing costs to producers. The principal mining countries in the area are Nicaragua and Honduras, and the principal metals produced are silver, gold, lead, and zinc. Virtually all of the output of these metals is exported.

Other metal and mineral deposits are known to exist in Central America; for

^{1/} Spanish cedar (Cedrela spp.) is a deciduous hardwood and is different from the several evergreen softwoods in temperate North America which are termed "cedar".

some the location and reserves have been studied by U.S. Government geologists.^{1/} These deposits include antimony, chromite, copper, iron ore, manganese, mica, and some radio quartz. Sizable deposits of raw materials for the construction industry, (e.g., gypsum, limestone) also have been found in various parts of Central America, but they have not been exploited to an appreciable extent. In general, much still needs to be done in surveying and mapping the area's mineral deposits. Moreover, substantial improvements in land transportation facilities will be required to make their exploitation feasible.

In recent years, explorations for petroleum have been made in Guatemala, Honduras, and Costa Rica. The likely zones are remote and difficult of access and by 1962 no major deposits had been discovered. Nevertheless, interest continued in both petroleum exploration and refining as an import-substitutive industry.

Manufacturing industries

Manufacturing in Central America consists largely of processing local agricultural products, together with imported raw materials, into consumer goods. Since the local agricultural products for the most part are similar in all five Central American states, their industries tend to be similar to one another. The small size of the market in each country and a lack of specialization in their manufactures has resulted either in local establishments operating at less than capacity, or in construction of plants too small for lowcost operations. In either case, to assure their survival, a substantial degree of assistance has been granted--usually in the form of high import duties, exemption from duties on imported materials and equipment required in the manufacturing process, or other special tax and foreign exchange benefits.

^{1/} Ralph J. Roberts and Earl M. Irving, Mineral Deposits of Central America, Geological Survey Bulletin 1034, 1957.

Manufactures which are typical of the entire region include beer and aguardiente (crude rum); bakery products; dairy products (including ice cream); soft drinks; cigarettes and other tobacco products; leather footwear and other tannery products; refined sugar; matches; soap and candles; vegetable fiber products; sawmill products; wheat, corn, and rice flour; cement and cement products; clay bricks; and graphic arts products. In addition to the foregoing, a certain amount of specialized production is found in the area. For example, there is a tire factory in Guatemala; a paper-bag and a plywood factory in Honduras; a pressed-wood plant in Nicaragua; and there are one or more soluble coffee plants in El Salvador.

Industries in Central America are concentrated about the capital cities and a few other areas where transportation and electric power facilities make their location feasible. The principal industrial centers are as follows:

<u>Country</u>	<u>Industrial Centers</u>
Guatemala	Guatemala Quezaltenango
El Salvador	San Salvador Santa Ana San Miguel
Honduras	Tegucigalpa San Pedro Sula
Nicaragua	Managua Leon Granada
Costa Rica	San Jose Provinces of Alajuela, Cartago, Heredia

Despite important gains made since World War I, by 1950 the manufacturing sector of the Central American economy employed only some 11 percent of the labor force and generated about 16 percent of the gross product of the area (Table VII). Partial data available for the years since 1950, show that in El Salvador (the most industrialized country in Central America) the value of manufactured products rose in real terms from 12 percent of the gross domestic product in 1950 to 14 percent in 1957 and remained at about that level through 1959, the latest year for which such data are available. In Honduras, which is about the least industrialized of the five republics, the proportion rose from 9 percent in 1950 to 12 percent in 1958 and declined to 11 percent by 1960. 1/

The principal factors which have inhibited the growth of industry in Central America have been (1) the small size of the individual markets of the respective countries; (2) inadequate transportation, communication, and electric power facilities, resulting in the high cost and uncertainty of their services; (3) inadequate availability of trained manpower and local entrepreneurs; (4) a political climate making Central America more risky than other areas for foreign investment; and (5) sharp fluctuations in the region's capacity to import raw materials, intermediate products, and machinery required in the manufacturing process. The extent of these import requirements is shown by the fact that Honduran industry in 1958 was dependent upon imports for 54 percent (in terms of the value) of the raw materials it consumed. While the degree of reliance upon imports varied sharply between industries, those utilizing imports for the supply of 50 percent or more of their raw materials accounted for approximately 60 percent of the value added by Honduran manufactures to the net domestic product.2/

1/ The comparisons for both countries are in terms of constant prices.

2/ Secretaria de Economia y Hacienda, Direccion General de Estadistica y Censos, Investigacion Industrial-1958. Tegucigalpa, December 1960.

Services

Services include principally wholesale and retail commerce; banking; transport and communications; and providing gas, electricity, and water. According to ECLA studies, the service activities in 1950 employed somewhat more than 17 percent of the Central American labor force. The comparable ratio for Latin America as a whole was 25 percent and for the United States, over 50 percent. Data available for El Salvador and Honduras suggest that the services sector contributed between 30 and 40 percent to the gross domestic product during the years 1950-60, making this sector second in importance only to agriculture in the region's economy.

The large outlays for services reported in the national accounts of the Central American countries reflect principally either the unavailability or the limited supply of alternative items of domestic consumption. The demand for services in these countries has expanded with the growth of their national incomes, and thereby has stimulated the urbanization process. However, the service and existing manufacturing industries together have thus far been incapable of providing employment for the swelling urban labor force. Consequently, social and political problems have been aggravated in most, if not all, countries in the Central American area.

At the outset of the Central American integration movement in the early 1950's, transportation facilities in the five countries were inadequate to provide for effective distribution of goods and services in their national territories. Existing systems were designed primarily to link the ports with production and consumption centers within each country. Power facilities also were grossly inadequate; and their expansion was at a much slower rate than the growth in demand for their services, even with high prices per kilowatt-hour and actual rationing of power consumption in some countries.

Consequently, not only were the existing transport and power facilities unsuited to the requirements of national markets, but they also impeded the development of regional markets and restricted the possibilities of intraregional competition. In view of the need to assure a free flow of raw materials and finished goods, as well as of capital, labor, and technology throughout the area if regional economic unification were to become a reality, those responsible for the integration program, as early as 1953, contemplated a coordinated plan for transportation and electric power development. In June 1958, two special subcommittees were formed: The Central American Electric Power Subcommittee, and the Central American Transport Subcommittee--to deal with these subjects on a systematic and permanent basis.

Since 1952, when the Economic Cooperation Committee of the Central American Isthmus (CCE) was created, studies of the merchant marine, port, air, and overland transport systems have been made by the ECLA Secretariat and the UN Bureau of Technical Assistance Operations; their findings were reported at a seminar held in San Jose, Costa Rica, in June 1953. 1/ In addition, two treaties, one on unification of road signs and signals and one on road traffic were signed in Tegucigalpa in June 1958.

In October 1958, plans were approved for the experimental application of standardized specifications for road and bridge construction. 2/ Also the legal and economic aspects of establishing regional overland transport services were being studied, and standard maritime legislation for Central America was being drafted. 3/

- 1/ Transport in Central America, (E/CN.12/356-ST/TAA/Ser.C/8). A later study was entitled, Situacion del Transporte in Centroamerica, (E/CN.12/CCE/120-1958).
- 2/ Especificaciones Generales para la construccion de carreteras y puentes in Centroamerica y Panama (TAA/LAT/19); and Normas para el diseno de puentes en Centroamerica y Panama, (SC.3/I/DT/4).
- 3/ "Central American Economic Integration Programme: Evaluation and Prospects" op. cit., pp. 42-43.

Roads.--Although significant increases in road mileage have been made in Central America since the inception of the economic integration movement, there is still a need to expand existing national systems and to link them into a regional network. The increase in Central American highway mileage between 1953 and 1960 is shown below: 1/

	<u>1953</u> (miles)	<u>1960</u> (miles)	<u>Percent</u> <u>increase</u>
Guatemala	4,057	4,185	3
El Salvador	4,785	5,561	16
Honduras	1,075	2,006	87
Nicaragua	1,624	3,160	95
Costa Rica	1,554	6,200	299
Total	<u>13,095</u>	<u>21,112</u>	<u>61</u>

As late as 1960, paved roads comprised only about 11 percent of the total road mileage in Central America. At the same time, more than half of the 2,417 miles of paved road was located in the two westernmost countries, Guatemala and El Salvador. Some 28 percent of the total road mileage in the region consisted of "gravel or crushed stone or stabilized soil," and the remaining 61 percent consisted of earth, (graded and drained) and unimproved roads. 2/

Whereas Central American highway mileage increased more than 60 percent between 1953 and 1960, the number of vehicles in use increased approximately 145 percent. Nevertheless, with the large growth in population, the ratio of persons per vehicle declined from 158 to 77.

After completion of the UN studies, the Central American governments decided that the primary objective of their transportation policy should be to

1/ Including, in order of importance in terms of road mileage, unimproved roads, some of which were graded or drained; highways surfaced with gravel or crushed stone; and paved highways.

2/ International Road Federation, Highway Expenditures, Road and Motor Vehicle Statistics for 1960, Washington, D. C., June 1, 1961.

complete the main arteries of a regional road network. The longer range objectives of the integrated program include: the adaptation of the road network to the requirements of increasing commercial traffic by improving trunk roads; the construction of secondary roads; and expansion and modernization of harbor installations in the region. 1/

Ports.---Between 80 and 90 percent of the foreign trade of the Central American countries is water-borne. The quality of its port facilities therefore is of special importance to Central America. The UN experts found the region's port facilities inadequate to handle the growing volume of Central American commerce; they were characterized as antiquated, poorly managed, and incapable of handling the present volume of traffic efficiently. 2/ Moreover, the port charges, which varied considerably from country to country, were often capricious and bore no relation to the actual costs of services provided. The UN technicians therefore recommended the establishment of national programs to improve and modernize port facilities, and the achievement of joint action in the improvement of port administration, revision of port charges, and simplification of customs procedures. The UN experts warned against duplication of efforts in these programs and recommended coordination of the port activities of the five countries. 3/ To improve port administration they recommended that scholarships be established for training personnel of the five countries at the Advanced School of Public Administration (ESAPAC) at San Jose, Costa Rica.

1/ UN, ECLA, Central American Economic Integration and Development (E/CN.12/586), 28 March 1961, p.4.

2/ UN, TAA, El Transporte en el Istmo Centroamericano: El Transporte Maritimo, TAA/LAT/5, 1 October 1955, pp. 45, 486-490.

3/ Ibid, pp. 498-499.

Merchant marine.--Another aspect of maritime transportation in the area is the prospect for the creation of a Central American merchant fleet. Since the vast majority of the area's seaborne commerce is carried in foreign-owned vessels--chiefly those of the U.S. fruit companies who also control major port facilities on the Caribbean coast through long-term concessions--the aspiration for a regional fleet reflects, to a certain extent, the nationalistic reaction to foreign control over the external trade of the five countries. On the other hand, because the bulk of intraregional trade is land-borne, and maritime trade within the region is small and sporadic, international steamship lines have not been interested in promoting this trade in the area. The UN mission decided that a small Central American merchant fleet, if it were to serve any useful purpose, would be that of acting as an auxiliary service to promote coastwise intraregional and international trade. ^{1/}

Civil Aviation.--With respect to civil aviation in Central America, the UN experts recommended (1) more, and more regular intraregional flights; (2) replacement of antiquated aircraft with more recent models; and (3) the carriage of all mail by air within the region. Other recommendations dealt with simplification of procedures for tourist travel by air and the development of plans for handling growing freight and passenger traffic by air within and between the five countries.

Other recommendations dealt with the formulation of a regional plan to unify and improve air traffic control procedures in intraregional and international operations; the coordination of meteorological data; and the adoption of improved, uniform practices involving contracts with aviation companies, air safety requirements, and aircraft maintenance.

^{1/} Ibid., p. 490, Coastwise trade is relatively important in Honduras, Nicaragua, and especially in Costa Rica.

Electric Power

The principal problems affecting electric power development in Central America are the need (1) to supply power in adequate amounts at reasonable prices; (2) to establish adequately staffed agencies for planning and administering electric power development; and (3) to obtain the requisite financing for future power requirements. If a shortage of power is not to be a deterrent to the development of the integration program, the Central American countries will have to take steps to assure adequate supplies to potential industries, at rates which will encourage manufacturing within each of the five countries.

Experts sponsored by the United Nations have made two studies of Central America's power requirements, 1/ but both fail to provide estimates of total demand, by country, compared with estimated total supply (including hydro and thermal power). The reports deal primarily with public hydroelectric power, and neglect projections of either private hydroelectric power or public and private thermal power. Yet nearly half of the installed capacity in Central America in 1960 consisted of thermal power, and prior to that time, thermal power capacity exceeded hydro capacity (Table XII).

The UN technicians reported that within a decade or two it is technically possible to develop supplies of electric energy in the Central American countries to keep pace with the growth of regional demand. Moreover, the costs of the required installations would be well within the borrowing capabilities of these countries given the characteristically long amortization period for power loans. Since only Nicaragua and Honduras had serious power shortages in 1956, 2/ and inasmuch as national power development programs contemplated or in progress would correct these shortages, the technicians concluded that, with certain exceptions, 1/ Informe Preliminar sobre Electrificación en America Central (ST/TAA/J/Central America/R.1-1954) and El Desarrollo Electrico en Centroamerica, (TAA/LAT/9-1957). 2/ TAA/LAT/9, op. cit., p. 59, This report, published in 1957, discusses the power situation as it existed in 1956.

international power programs were not necessary at this time. 1/

TABLE XII.

Central America: Estimated installed capacity
and electric energy production, 1960

Country	Installed Capacity			Energy Production			Output per Capita
	Hydro	Thermal	Total	Hydro	Thermal	Total	
	Million	Million	Million	Million	Million	Million	
	kilo- watts	kilo- watts	kilo- watts	kilo- watt hours	kilo- watt hours	kilo- watt hours	
Guatemala-----	31	30	61	185	185	370	99
El Salvador-----	73	43	116	250	50	300	115
Honduras-----	5	25	30	20	85	105	54
Nicaragua-----	10	70	80	45	140	185	125
Costa Rica-----	90	36	126	360	50	410	349
Total or							
average-----	209	204	413	860	510	1,370	123

Source: Federal Power Commission, Bureau of Power, World Power Data-1960: Capacity of Electric Generating Plants and Production of Electric Energy. Washington, D. C., August, 1961, p. 12.

In 1957 El Salvador and Guatemala concluded an agreement regulating the use of the waters of Lake Guija. El Salvador undertook to provide electric power to Guatemala, at the going market rates of the Salvadoran producer, up to a potential of 5,000 kilowatts. It was planned that when the first unit of the plant had been built, a transmission line would be constructed to the frontier to connect with the Guatemala power system. 2/

1/ The exceptions were (1) the interconnection of the projected (Lake Yojoa-Rio Lindo) Honduran generating plants with grid in El Salvador; (2) the joint development by Panama and Costa Rica of the resources available in some of their border areas; and (3) the integration of thermal and hydroelectric plants in Guatemala and El Salvador. Completion of these projects would result in low-cost power in the respective areas.

2/ TAA/LAT/9, op. cit., p. 158. The connection was to be made with Guatemala's local Rio Hondo-Zacapa-Chicuinula system.

Other possibilities of integration in the field of electric power include the standardization of voltages and frequencies throughout the area; unification of technical standards for electrical materials, equipment and instruments; and negotiation of loans for power development.

Foreign Trade

Exports

Central American countries have traditionally relied on a few primary agricultural products, chiefly coffee and bananas, for their foreign exchange. Over the past quarter-century, however, there has been a shift in the relative importance of these commodities within the region's export trade, as shown in the following tabulation: ^{1/}

Percent of total value of exports from Central America accounted for by:

<u>Year</u>	<u>Coffee</u>	<u>Bananas</u>	<u>Cotton</u>	<u>All Other</u>
1938-----	40	46	-	14
1948-----	39	40	1	20
1953-----	55	26	4	15
1958-----	55	17	10	18
1960-----	52	16	7	25

Between 1938 and 1960, the share that exports of coffee contributed to the total value of Central American exports increased from 40 percent to 52 percent, whereas the share of banana exports in the total declined from 46 percent to 16 percent. Since World War II, raw cotton has become fairly important in the region's export trade. Less important exports have included gold, silver, lumber, abaca, and cacao.

The United States and Western Europe traditionally have been the major markets for Central American exports (Table XIII). After the end of World War II, however, two new developments occurred in the pattern of Central America's

^{1/} Data are from the United Nations, Yearbook of International Statistics and Direction of International Trade.

export trade. The first was a decline in the relative importance of traditional markets as new ones were developed in Central America, Japan, and elsewhere in Latin America (notably in Cuba, Peru, Panama, Mexico, and Venezuela). The other development was the changing relationship of the traditional markets themselves. While the U.S. share of Central American exports declined from about 85 percent during the early postwar years (1946-51) to 46 percent in 1959, the share of Western Europe increased from about 10 percent to 33 percent. The major European buyers of Central American products have been the Federal Republic of Germany, the United Kingdom, and the Benelux countries. The European markets have purchased chiefly coffee, cotton, and bananas. Sales to Japan have consisted primarily of raw cotton. Central American exports to major markets during the years 1955-59 are shown in Table XIV.

Over the past quarter century, intra-regional trade in Central America has grown both in absolute value and in proportion to the region's total trade (Table XV). Moreover, the relative importance of the respective countries in such trade has changed. During the pre-war years (1934-48) only Nicaragua was a net exporter to the other Central American countries; during the years immediately after the war (1946-51), Nicaragua, Honduras, and Costa Rica were; and in the recent period (1955-59), Honduras and Nicaragua were net exporters (Table XVI). The disparities in intraregional trade have become much more pronounced since World War II, especially during the years 1955-59, as the value of this trade has increased.

TABLE XIII.

Central America: Exports, by principal areas of destination, averages 1934-38 and 1946, 51, annual 1952-59

(In percentage of total f.o.b. values)						
Period	United States	Western Europe	Central America	Other Latin American countries	Other countries	
Average:						
1934-38-----	57	37	3	1/		3
1946-51-----	85	10	2	1/		3
Annual:						
1952-----	76	13	3	3		5
1953-----	69	15	3	3		10
1954-----	64	23	3	2		8
1955-----	59	27	3	2		9
1956-----	54	30	3	2		11
1957-----	52	33	4	3		8
1958-----	50	32	5	2		11
1959-----	46	32	7	3		12

1/ Not separately reported.

Source: United Nations, Yearbook of International Trade Statistics-1959 and Direction of International Trade, annual issues and issue of November-December 1960.

TABLE XIV.

Central America: Exports by countries and by principal destinations. 1955-59

(In millions of U.S. dollars, f.o.b.)

Year and Exporting Country	Exports to						Total
	United States	Western Europe	Other Central American	Other Latin America	Other Countries		
1955:							
Costa Rica-----	44.3	27.9	.8	1.3	6.6		80.9
El Salvador-----	68.6	27.0	4.1	.2	7.0		106.9
Guatemala-----	73.1	20.0	1.7	.4	11.2		106.4
Honduras-----	33.2	5.8	4.7	3.0	2.2		48.9
Nicaragua-----	24.9	30.6	1.2	2.6	12.6		71.9
Total-----	244.1	111.3	12.5	7.5	39.6		415.0
1956:							
Costa Rica-----	34.1	26.0	.7	1.7	5.0		67.5
El Salvador-----	50.2	43.5	5.2	1/	13.8		112.7
Guatemala-----	83.2	27.8	1.5	.7	8.9		122.1
Honduras-----	47.9	7.8	6.5	2.8	7.9		72.9
Nicaragua-----	20.3	26.5	.7	1.3	8.9		57.7
Total-----	235.7	131.6	14.6	6.5	44.5		432.9
1957:							
Costa Rica-----	42.9	27.2	1.2	3.2	8.9		83.4
El Salvador-----	63.3	60.2	6.3	.2	8.5		138.5
Guatemala-----	72.5	30.1	2.6	1.4	7.6		114.2
Honduras-----	41.7	6.8	6.0	4.9	5.4		64.8
Nicaragua-----	23.4	32.1	1.2	2.3	5.3		64.3
Total-----	243.8	156.4	17.3	12.0	35.7		465.2
1958:							
Costa Rica-----	45.7	32.4	1.6	3.4	8.8		91.9
El Salvador-----	46.1	47.7	8.2	.1	13.9		116.0
Guatemala-----	66.3	27.5	3.0	1.4	8.8		107.0
Honduras-----	43.1	8.8	6.6	3.5	7.5		69.5
Nicaragua-----	21.1	28.5	1.4	1.8	11.0		63.8
Total-----	222.3	144.9	20.8	10.2	50.0		448.2

1/ Less than \$50,000

Table XIV. cont'd.

TABLE XIV. (cont'd)

(In millions of U.S. dollars, f.o.b.)

Year and Exporting Country	Exports to						Total
	United States	Western Europe	Other Central American	Other Latin America	Other countries		
1959:							
Costa Rica-----	37.5	29.4	1.8	2.6	5.4		67.7
El Salvador-----	40.3	42.9	10.5	.3	19.1		113.1
Guatemala-----	64.6	30.4	4.2	.7	3.3		103.2
Honduras-----	37.3	12.4	8.0	5.3	5.8		68.8
Nicaragua-----	19.6	27.7	4.2	2.4	18.3		72.2
Total-----	199.3	142.8	28.7	11.3	51.9		434.0

Source: United Nations, Yearbook of International Trade Statistics-1959,
Volume 1, and Direction of International Trade, November-December 1960.

Note.--Guatemalan exports exclude adjustment for undervaluation of bananas.

TABLE XV.
Central America: Total merchandise trade among the five countries averages
1934-38, 1946-51, and 1955-59

(Values in thousands of U. S. dollars f.o.b.)

Exporting Country	Importing countries					Total exports: Percent of	
	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Value	to the area : total exports to the area
Average 1934-38							
Costa Rica-----	-	3.4	7.9	1.3	27.5	40.1	4
El Salvador-----	13.1	-	78.1	184.7	6.9	282.8	31
Guatemala-----	4.3	47.9	-	8.9	3.6	64.7	7
Honduras-----	-	238.9	22.5	-	20.3	281.7	31
Nicaragua-----	63.6	15.9	51.0	119.2	-	249.7	27
Total imports from the area:	81.0	306.1	159.5	314.1	58.3	919.0	100.0
Percent of total imports of the area-----	8.8	33.3	17.4	34.2	6.3	-	100.0
Average 1946-51							
Costa Rica-----	-	57.8	540.1	218.1	214.4	1,030.4	12
El Salvador-----	220.2	-	1,343.3	1,664.2	92.2	3,319.9	37
Guatemala-----	25.3	199.9	-	51.7	4.6	281.5	3
Honduras-----	136.9	2,473.6	193.8	-	54.5	2,858.8	32
Nicaragua-----	424.1	712.2	185.3	95.4	-	1,417.0	16
Total imports from the area:	806.5	3,443.5	2,262.5	2,029.4	365.7	8,907.6	100.0
Percent of total imports of the area-----	9.0	38.7	25.4	22.8	4.1	-	100.0
Average 1955-59							
Costa Rica-----	-	492.0	-	158.0	2,570.0	3,220.0	6
El Salvador-----	480.0	-	2,632.0	2,632.0	1,128.0	6,872.0	36
Guatemala-----	44.0	2,476.0	-	62.0	-	2,582.0	14
Honduras-----	152.0	5,358.0	797.0	-	-	-	33
Nicaragua-----	795.0	1,069.0	13.0	126.0	-	2,003.0	11
Total imports from the area:	1,471.0	9,935.0	3,442.0	2,978.0	1,677.0	18,963.0	100.0
Percent of total imports of the area-----	5.0	45.0	17.0	15.0	18.0	-	100.0

Source: Statistical Office of the United Nations, UN, ECLA, Analysis and Prospects of Inter-Central American Trade (E/CN.12/367), 20 July 1955; Yearbook of International Trade Statistics-1959, vol.1; and Direction of International Trade, Nov.-Dec. 1960

TABLE XVI

Central America: Net flow of intraregional trade
by countries, averages 1934-38, 1946-51, and 1955-59 1/

(In thousands of U.S. dollars)			
Country	Average 1934-38	Average 1946-51	Average 1955-59
Costa Rica-----	-40.9	+223.9	-307.0
El Salvador-----	-23.3	-123.6	-2,523.0
Guatemala-----	-94.8	-1,981.0	-860.0
Honduras-----	-32.4	+829.4	+3,364.0
Nicaragua-----	+191.4	+1,051.3	+326.0

1/ Plus sign signifies export surplus; minus sign an import surplus.

Source: UN, ECLA, Analysis and Prospects of Inter-Central American Trade
(E/CN.12/367) 20 July 1955, and Table XV.

Much of the growth in Central America's intraregional trade has occurred within a framework of bilateral limited-free-trade treaties which were precursors of the broader regional economic integration program (Table XVII). The treaties usually contained the Central American "exception clause" which permits the respective countries to grant special benefits on domestic commodities traded within the region. The more important of these agreements specified items on which the two countries agreed to exchange duty-free treatment as well as products which were to receive preferential tariff treatment. The preeminence of El Salvador in the internal trade of Central America undoubtedly has been aided by its network of bilateral trade treaties with the other four countries.

At least one of these treaties, that with Honduras, dates back to 1918. Although comparable data for the other Central American countries are not available, the information published by Honduras shows that in 1960 nearly 90 percent of its exports to the other countries in the area and about 85 percent of its imports from those countries were made under preferential provisions of bilateral trade treaties.

TABLE XVII.

Central America: Bilateral preferential trade treaties in force
among the respective countries as of September 1962

Costa Rica with--	El Salvador with--	Guatemala with--	Honduras with--	Nicaragua with--
El Salvador <u>1/</u>	Costa Rica <u>1/</u>	El Salvador <u>3/</u>	Nicaragua <u>2/</u>	Honduras <u>2/</u>
	Guatemala <u>3/</u>	Honduras <u>4/</u>	Guatemala <u>4/</u>	El Salvador <u>5/</u>
	Honduras <u>6/</u>		El Salvador <u>6/</u>	
	Nicaragua <u>5/</u>			

1/ Signed Oct. 5, 1953, and effective Feb. 19, 1954. Special enabling regulations passed by Costa Rica on March 17, 1954.

2/ Commercial modus vivendi. Notes exchanged on May 27 and June 24, 1946; effective Feb. 18, 1947.

3/ Signed April 15, 1959 and effective Sept. 7, 1959.

4/ Signed Aug. 22, 1956, and effective Oct. 26, 1956.

5/ Signed Mar. 9, 1951, and effective Aug. 21, 1951.

6/ Signed Jan. 9, 1960, and effective Mar. 11, 1960, replacing a bilateral agreement of 1956 which in turn had superseded an agreement in effect since 1918.

Imports

In terms of constant prices, the shares of Central American imports, by economic groups, 1/ have not changed appreciably in the postwar years (Table 18). Between 1948 and 1958 the region's share of imports accounted for by consumer goods increased very slightly, from 40 percent of the total value to 41 percent; the share accounted for by raw materials rose from nearly 25 percent to 27 percent; and that of capital goods increased only from 25 percent to 26 percent. These three groups accounted for about 90 percent of the total value of imports in 1948 and for 94 percent in 1958.

The United States has long been the major single source of Central American imports (Table 19). During World War II, because nearly all other suppliers were cut off from the Central American market, the United States filled virtually all of Central America's import requirements. Since the war, however, the share of the United States in Central America's import trade has been declining, while the shares accounted for by Western European countries, Japan, and countries within the Central American area, have been increasing. The value of Central American imports during the period 1955-59, by importing country and from principal supplying areas, is shown in Table 20.

1/ These groups are consumer goods; raw materials and intermediate products; and capital goods.

TABLE XVIII.

Central America: Composition of imports, by category and by
country, 1948, 1953 and 1958
(Million U.S. Dollars)

	Values at 1955 Prices 1/			Percent of total value		
	1948	1953	1958	1948	1953	1958
<u>Consumer goods</u>						
Nondurable:						
Costa Rica-----	11.6	21.4	24.6	5.4	6.3	5.2
El Salvador-----	12.5	24.4	34.0	5.9	7.1	7.1
Guatemala-----	16.9	27.6	38.8	8.0	8.1	8.1
Honduras-----	12.8	17.3	28.6	6.0	5.1	6.0
Nicaragua-----	6.4	10.1	15.2	3.0	2.9	3.2
Subtotal-----	60.2	100.8	141.2	28.3	29.5	29.6
Durable:						
Costa Rica-----	3.6	7.7	8.7	1.7	2.2	1.8
El Salvador-----	6.0	8.1	11.0	2.8	2.4	2.3
Guatemala-----	7.9	8.6	23.1	3.7	2.5	4.9
Honduras-----	3.9	5.0	7.1	1.9	1.5	1.5
Nicaragua-----	4.3	5.7	5.8	2.0	1.7	1.2
Subtotal-----	25.7	35.1	55.7	12.1	10.3	11.7
<u>Raw Materials & Inter- mediate Products</u>						
Metallic:						
Costa Rica-----	1.4	2.5	2.0	.6	.7	.4
El Salvador-----	0.8	1.5	2.1	.4	.4	.5
Guatemala-----	2.1	2.2	3.8	1.0	.7	.8
Honduras-----	0.8	1.0	1.6	.4	.3	.3
Nicaragua-----	1.3	2.1	2.4	.6	.6	.5
Subtotal-----	6.4	9.3	11.9	3.0	2.7	2.5
Nonmetallic:						
Costa Rica-----	11.1	16.6	26.1	5.2	4.9	5.5
El Salvador-----	7.5	15.8	24.6	3.5	4.6	5.2
Guatemala-----	17.1	18.3	30.3	8.0	5.3	6.4
Honduras-----	5.9	9.8	17.2	2.8	2.9	3.6
Nicaragua-----	4.1	10.4	18.3	2.0	3.0	3.8
Subtotal-----	45.7	70.9	116.5	21.5	20.7	24.5
1/ C.i.f. values						

TABLE XVIII. (Cont'd)

	Values at 1955 Prices 1/			Percent of total value		
	1948	1953	1958	1948	1953	1958
Capital goods:						
Construction materials						
Costa Rica-----	3.0	8.8	9.6	1.4	2.6	2.0
El Salvador-----	1.2	5.1	8.4	.6	1.5	1.7
Guatemala-----	2.3	3.8	8.9	1.1	1.1	1.9
Honduras-----	5.2	5.3	4.7	2.4	1.6	1.0
Nicaragua-----	1.0	4.9	3.8	.5	1.4	.8
Subtotal-----	12.7	27.9	35.4	6.0	8.2	7.4
Agricultural equipment and machinery						
Costa Rica-----	1.0	3.0	3.0	.5	.8	.6
El Salvador-----	0.8	1.8	1.9	.4	.5	.4
Guatemala-----	1.7	2.0	4.8	.8	.8	1.0
Honduras-----	1.2	2.2	3.0	.5	.6	.6
Nicaragua-----	1.4	4.0	2.2	.6	1.1	.5
Subtotal-----	6.1	13.0	14.9	2.8	3.8	3.1
Industrial equipment and machinery						
Costa Rica-----	4.1	7.7	9.9	1.9	2.3	2.1
El Salvador-----	5.3	5.9	8.9	2.5	1.7	1.9
Guatemala-----	7.5	7.2	15.8	3.5	2.1	3.3
Honduras-----	5.3	5.9	8.7	2.5	1.7	1.8
Nicaragua-----	1.5	6.0	9.5	.7	1.8	2.0
Subtotal-----	23.7	32.7	52.8	11.1	9.6	11.1
Transport equipment and machinery						
Costa Rica-----	1.4	4.1	1.9	.7	1.2	.4
El Salvador-----	2.9	3.5	4.9	1.4	1.0	1.0
Guatemala-----	5.0	2.7	6.4	2.3	.8	1.3
Honduras-----	1.3	2.8	3.6	.6	.8	.8
Nicaragua-----	0.1	1.2	2.1	2/	.4	.5
Subtotal-----	10.7	14.3	18.9	5.0	4.2	4.0
Total imports: 3/						
Costa Rica-----	40.5	77.0	82.6	19.0	22.5	17.3
El Salvador-----	40.1	71.0	103.7	18.8	20.8	21.7
Guatemala-----	66.2	79.0	142.5	31.1	23.1	30.0
Honduras-----	43.3	66.1	81.0	20.3	19.3	17.0
Nicaragua-----	22.9	49.0	66.5	10.8	14.3	14.0
Total-----	213.0	342.1	476.3	100.0	100.0	100.0

2/ Less than .05 percent. 3/ Totals include miscellaneous imports not shown in the table ---- Source: UN, ECLA, Economic Bulletin for Latin America, vol IV, No. 2, October 1959, pp. 86, 90.

TABLE XIX.

Central America: Sources of imports, by principal supplying areas, averages 1934-38, and 1946-51, annual 1952-59

(In percentages of total c.i.f. values)						
Period	United States	Western Europe	Central America	Other Latin American Countries	Other Countries	
Average:						
1934-1938-----	49	37	2	4	8	
1946-1951-----	73	10	4	7	6	
Annual:						
1952-----	66	18	3	5	8	
1953-----	61	18	4	5	14	
1954-----	59	20	4	4	13	
1955-----	61	20	5	3	11	
1956-----	57	21	3	5	14	
1957-----	55	23	3	4	15	
1958-----	52	24	4	5	15	
1959-----	51	26	6	5	12	

Source: United Nations, Yearbook of International Trade Statistics-1959 and Direction of International Trade, annual issue, and November-December 1960 issue.

TABLE XX.

Central America: Imports by countries and by principal
supplying areas, 1955-59

(In millions of U.S. dollars c.i.f.)

Year and importing countries	Imports from					Total
	United States	Western Europe	Other Central American Countries	Other Latin American Countries	Other Countries	
1955:						
Costa Rica-----	52.1	22.7	.7	3.3	8.6	87.4
El Salvador-----	52.4	23.5	6.9	4.3	4.8	91.9
Guatemala-----	69.8	18.4	6.8	1.5	10.1	106.6
Honduras-----	35.9	17.6	2.2	1.8	14.8	62.3
Nicaragua-----	45.4	11.8	1.5	3.4	7.5	69.6
Total-----	255.6	84.0	18.1	14.3	45.8	417.8
1956:						
Costa Rica-----	49.7	25.9	1.0	5.2	9.4	91.2
El Salvador-----	55.2	28.4	8.1	5.4	7.8	104.7
Guatemala-----	82.4	22.0	1.5	6.1	25.7	132.7
Honduras-----	39.6	8.0	1.4	1.8	23.7	66.5
Nicaragua-----	43.2	13.0	1.5	3.6	7.5	68.8
Total-----	270.1	97.3	13.5	22.1	74.1	468.9
1957:						
Costa Rica-----	56.8	28.9	.9	3.9	12.3	102.8
El Salvador-----	59.4	33.5	8.7	4.7	8.7	115.0
Guatemala-----	79.8	30.7	1.7	7.4	27.8	147.4
Honduras-----	44.0	8.9	2.4	1.4	22.0	78.7
Nicaragua-----	47.1	18.0	2.8	3.7	9.3	80.9
Total-----	287.1	120.0	16.5	21.1	80.1	524.8
1958:						
Costa Rica-----	52.5	29.0	1.1	5.1	13.2	100.9
El Salvador-----	52.6	32.7	10.5	4.8	7.0	107.6
Guatemala-----	79.9	32.9	2.2	6.5	28.9	150.4
Honduras-----	40.1	10.6	4.1	2.4	19.4	76.6
Nicaragua-----	42.8	16.6	2.7	4.9	10.9	77.9
Total-----	267.9	121.8	20.6	23.7	79.4	513.4
1959:						
Costa Rica-----	51.3	29.5	3.9	5.7	13.5	103.9
El Salvador-----	44.5	29.7	12.5	5.3	8.0	100.0
Guatemala-----	73.7	35.8	3.1	5.9	15.5	134.0
Honduras-----	33.0	10.8	4.6	2.7	10.8	61.9
Nicaragua-----	34.8	13.6	4.0	4.6	9.8	66.8
Total-----	237.3	119.4	28.1	24.2	57.6	466.6

Source: UN, Yearbook of International Trade Statistics-1959, & Direction of International Trade, annual issues and November-December 1960 issue

Contribution to the gross domestic product

The heavy reliance of the Central American countries on foreign commerce is illustrated by the high ratios of their exports and imports to gross domestic product (GDP). ^{1/} During the years 1950-59, exports and imports each were equivalent to nearly a fourth of total outlays on gross domestic product in each of the four countries (Costa Rica, El Salvador, Guatemala, and Honduras) for which data are available (Table 21). In each of these countries imports of goods and services increased at a greater rate during 1950-57 than did the gross domestic product but declined in 1958 and 1959, whereas exports of goods and services have tended to decline in relation to the gross domestic product after 1954. This decline in the export ratio resulted from worsening terms of trade ^{2/} (Table 22) insufficiently offset by an increase in either traditional exports or new ones. The extent to which an increase in exportable production can be maintained is of crucial importance to Central America, since the predicted trend of prices for its major foreign-exchange-earning exports is downward, or at best stable. The movement of prices of coffee and bananas during the period 1950-60 is shown in Table 23.

^{1/} Expenditures on gross domestic product comprise private and governmental consumption expenditures, gross capital formation, and exports of goods and services minus imports of goods and services.

^{2/} The terms of trade, as used in this report, refers to the changing relationships of Central America's export prices compared with those of its imports (Table 24).

TABLE XXI.

Central America: Ratios of exports and imports of goods and services to total expenditures on Gross Domestic Product, by countries, 1950-59

(In percentages of gross domestic product)								
Year	Costa Rica		El Salvador		Guatemala		Honduras	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1950-----	26	27	21	17	20	19	28	18
1951-----	27	27	26	23	21	21	29	22
1952-----	30	29	25	23	23	19	27	25
1953-----	29	29	26	24	23	19	25	22
1954-----	29	29	26	24	22	21	21	22
1955-----	26	28	26	25	21	21	18	21
1956-----	23	29	27	26	22	24	24	22
1957-----	26	30	27	26	19	24	24	23
1958-----	21	22	23	22	16	22	19	21
1959-----	16	21	22	20	16	20	18	19

Source: Based on data in UN, ECLA, Economic Bulletin for Latin America, Vol. IV, No. 2, Oct. 1959, pp. 63-64, and UN, Department of Economic and Social Affairs, Análisis y Proyecciones del Desarrollo Económico: VIII: El Desarrollo Económico de El Salvador, Mexico, D. F., 1959, pp. 7 and 26; and Agency for International Development, Economic Data Book for the countries of Latin America.

Note.--Comparable data are not available for Nicaragua

TABLE XXII.

Central America: Terms-of-trade indexes, by countries,
1950-60

(1953=100)

Year	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
1950-----	98	-	94	99	87
1951-----	97	-	98	92	110
1952-----	94	101	100	103	100
1953-----	100	100	100	100	100
1954-----	115	128	120	108	128
1955-----	106	112	111	108	108
1956-----	112	109	121	107	109
1957-----	102	107	107	-	94
1958-----	86	90	84	90	82
1959-----	79	77	68	81	71
1960-----	78	80	76	77	71

Source: International Monetary Fund, International Financial Statistics, various issues. The terms-of-trade indexes are derived by dividing the export price indexes by the import price indexes.

TABLE XXIII.

Prices of coffee and bananas in the United States
1950-60

(In dollars per 100 pounds)

Year	Coffee <u>1/</u>	Bananas <u>2/</u>
1950-----	52.4	15.40
1951-----	54.5	15.60
1952-----	54.4	15.22
1953-----	55.7	15.30
1954-----	71.9	15.30
1955-----	58.8	15.50
1956-----	68.4	15.60
1957-----	62.1	16.20
1958-----	49.8	15.90
1959-----	41.6	15.70
1960-----	42.2	14.80

1/ Prices for Guatemalan green coffee, f.o.b. port.

2/ Retail price in New York.

Source: International Monetary Fund, International Financial Statistics, June 1961, p. 30; and Banco De Guatemala, Boletín Estadístico, varied months.

A comparison of the volume of exports with total domestic output during the decade ended in 1959 for the same four Central American countries suggests that those that had experienced a relatively high rate of expansion of exports (Table 24) also had a relatively large increase in their output, although not proportionately so. As demand elasticities of Central American exports, particularly coffee, are relatively low, and inasmuch as investments in the banana industry are unlikely to increase substantially in this region, the expansion of coffee and banana production in Central America probably will not be very great in the foreseeable future. If the area's exports are to be increased significantly, alternative export lines must be expanded or established in the near future.

Central American production attains worldwide significance only in the case of bananas and coffee. Within Latin America, however, Central American output is significant for a broad range of commodities (Table 25). The integration program therefore might serve to increase the Central American area's competitive position in world markets served by Latin America. In addition, the economic integration program might make important contributions toward alleviating the balance of payments difficulties of Central America by (1) reducing the region's dependence on imports of many consumer goods; (2) creating new export industries; and (3) through cooperative action, influencing the prices obtained for certain of the area's exports.

TABLE XXIV.

Central America: Indexes of the volume of exports,
by countries, 1950-60

(1953=100)

Year	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
1950-----	80	<u>1/</u>	96	93	70
1951-----	82	<u>1/</u>	85	101	74
1952-----	97	98	95	94	96
1953-----	100	100	100	100	100
1954-----	94	93	92	75	113
1955-----	98	110	98	75	158
1956-----	73	115	102	98	122
1957-----	96	142	101	93	140
1958-----	123	143	112	105	156
1959-----	109	167	133	106	192
1960-----	122	176	139	99	130

1/ Not available.

Source: International Monetary Fund, International Financial Statistics.

TABLE XXV.

Central America: Importance in the free world production of selected commodities,
crop year 1959-60

	Coffee	Bananas	Raw Cotton	Raw sugar	Corn	Meat	Rice (rough)
Free world production --- 1,000 metric tons-----	4,700	<u>1/</u> 3,817	6,750	40,500	171,500	34,500	140,000
Latin American Production--do-----	3,766	2,748	1,113	14,361	21,251	6,721	6,340
a) Central American production--- do-----	292	871	72	271	1,069	150	141
(1) Percent of world total-----	6.2	22.8	1.0	0.6	0.6	0.4	0.1
(2) Percent of Latin American-- Total-----	7.8	31.7	6.4	1.8	5.0	2.2	2.2
<u>1/ Exports</u>							

Source: Agency for International Development, Statistics and Reports Division.

National economic policies

Fiscal policy

Customs receipts constitute by far the largest source of government revenues in the Central American republics. More developed countries, even small ones such as Belgium and Netherlands, have relied primarily on direct taxes; they have had no levies on exports, and import tariffs generally have been for protective rather than for revenue purposes. Although there has been a tendency in recent years for Central America's customs receipts to decline in proportion to total revenues (except in El Salvador), in 1959, they still accounted for well over 50 percent of the total (Table 26). The decline in receipts from import taxes often has been accompanied by an offsetting rise in collections of export taxes. Other major trends since 1938 in the Central American tax structure have been (1) the growing importance of direct taxes (such as those on income and property), and (2) the fluctuating role of "other" taxes, chiefly production, sales, and consumption taxes.

The considerable degree of fiscal dependence by the Central American countries upon imports, a highly vulnerable sector of the economy, makes national budgeting a difficult operation and creates considerable uncertainty in economic planning. Although these difficulties may be expected to continue for some time following the full realization of a regional common market, tax gains accruing from rising national incomes and increasing intraregional economic activities may in the long run facilitate the development of a tax system less dependent on consumption taxes. To achieve such a goal, the existing tax structure of each participating country will need to be revised to take account of the new opportunities for direct taxation created by a more diversified economy.

TABLE XXVI.

Central America: Importance of customs receipts to total tax revenues,
by countries, in selected periods, 1938-59

(In percent of total national tax revenues)						
Period and type of taxes	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Regnl Average
<u>Prewar (1938-40):</u>						
Import taxes-----	66.7	52.8	44.7	64.0	68.7	59.4
Export taxes-----	6.2	8.7	17.3	3.6	3.2	7.8
Subtotal-----	72.9	61.5	62.0	67.6	71.9	67.2
Income, profits, and property taxes-----	4.6	10.1	6.1	.7	1.2	4.5
Other taxes 1/-----	22.5	28.4	31.9	31.7	26.9	28.3
Total-----	100.0	100.0	100.0	100.0	100.0	100.0
<u>Postwar (1946-47):</u>						
Import taxes-----	64.3	48.7	36.6	59.7	59.4	53.7
Export taxes-----	1.5	14.3	9.1	2.4	3.1	6.1
Subtotal-----	65.8	63.0	45.7	62.1	62.5	59.8
Income, profits, and property taxes-----	8.7	9.4	13.0	2.2	3.9	7.4
Other taxes 1/-----	25.5	27.6	41.3	35.7	33.6	32.8
Total-----	100.0	100.0	100.0	100.0	100.0	100.0
<u>Recent (1955-57):</u>						
Import taxes-----	59.9	36.2	36.2	50.0	51.5	46.8
Export taxes-----	4.6	31.9	22.2	2.8	15.8	15.5
Subtotal-----	64.5	68.1	58.4	52.8	67.3	62.3
Income, profits, and property taxes-----	16.9	11.1	8.5	21.9	9.9	13.6
Other taxes 1/-----	18.6	20.8	33.1	25.3	22.8	24.1
Total-----	100.0	100.0	100.0	100.0	100.0	100.0
<u>Latest (1959):</u>						
Import taxes-----	54.0	2/	41.4	48.9	3/60.0	51.1
Export taxes-----	.9	2/	13.9	5.4	7.5	6.9
Subtotal-----	54.9		55.3	54.3	67.5	58.0
Income, profits, and property taxes-----	15.2	2/	11.4	17.5	10.2	13.6
Other taxes 1/-----	29.9	2/	33.3	28.2	22.3	28.4
Total-----	100.0		100.0	100.0	100.0	100.0

1/ Chiefly taxes on production, sales, and consumption in the Central American countries. 2/ Not available. 3/ Budget estimate

Source: UN, ECLA, Repercusiones Fiscales de la Equiparacion de Impuestos a la Importacion y del Libre Comercio en Centroamerica (E/CN.12/CCE/110), 20 March 1959, p. 13; and country data.

All five countries in Central America utilize a variety of fiscal measures to stimulate industrial development. ^{1/} In general, they grant to qualified enterprises (1) at least temporary exemption from the payment of income, production, sales, and profits taxes; (2) the privilege of importing specified materials and equipment for plant construction or expansion without payment of import duties and charges; and (3) exemption from payment of export taxes on designated export commodities. Most of these benefits generally are extended for a specified period only, the number of years varying with the deemed importance of the activity to the national economy. Producers also are granted tariff protection on selected items of domestic manufacture.

As provided by the General Treaty of Central American Economic Integration, a uniform industrial incentive law for the member countries was drafted in late 1961. When ratified, this law presumably will replace existing national legislation on this subject (see Ch. III).

Tariffs and other restrictions on trade

The Central American import tariffs have been employed primarily to raise revenue; nevertheless, the individual tariff schedules contain protective duties for selected domestic industries. When work was begun, about 1956, to formulate a schedule of uniform tariff rates for Central America, a Trade Subcommittee of the Economic Cooperation Committee encountered a multitude of problems. Tariff classification systems differed among the five republics. Only three countries (Costa Rica, Honduras, and Nicaragua) were using the new NAUCA nomenclature drawn up in 1953-54 by a group of trade and tariff experts designated by the

^{1/} See Joseph Pincus, The Industrial Development Laws of Central America. International Cooperation Administration, Office of Industrial Resources, Technical Aids Branch, March 1961.

Central American governments and ECLA, 1/, while El Salvador and Guatemala were employing a variation of the 1913 Brussels Statistical Nomenclature. By 1959, however, the two countries had revised their import tariffs to conform with the NAUCA classification.

Another problem concerned the types of duty to be adopted--whether specific, ad valorem, or compound. 2/ Initially, three countries (Guatemala, El Salvador, and Honduras) used principally specific duties; the Honduran tariff included a few ad valorem rates, and the schedules of the other two (Nicaragua and Costa Rica) used a considerable number of compound rates of duty. After the tariffs of Guatemala (1958) and El Salvador (1959) were revised, all countries except Honduras made preponderant use of compound rates. Before recommending the type of duty upon which principal reliance would be put, the subcommittee took into account the fiscal and protective effects of each, as well as the relative inexperience of the member countries in the administration of customs matters. Inasmuch as all five countries, in effect, were employing compound duties--even those having primary recourse to specific rates in their tariffs proper were also levying ad valorem consular charges or exchange taxes on imports--and since in the opinion of the Committee compound rates were best suited to both fiscal and protective purposes, it recommended their use as widely as possible--notwithstanding that a strictly ad valorem rate structure would have been easier to adapt to a uniform tariff. Nevertheless, the way was left open to apply the type of duty considered to be most suitable to any particular product.

1/ Standard Central American Tariff Nomenclature (Nomenclatura Arancelaria Uniforme Centro Americana - NAUCA). The subcommittee had approved the NAUCA classification system during its first two meetings. Since 1956, it has been engaged in the preparation of a uniform customs code, as well.

2/ Compound (mixed) rates have specific and ad valorem components.

The Committee agreed that when compound rates were applied, the components ultimately should be identical in the member countries, and that the specific-rate-of-duty component be adjusted uniformly and simultaneously when changes in prices reduce appreciably the protection afforded by the duty. To aid international comparisons of the burden of import duties on individual items in the projected new tariff, calculations of both import values and ad valorem equivalents of such duties were to be expressed in national currencies, at fixed parities with the U. S. dollar.

The basis of valuation adopted for the purpose of developing a uniform tariff was the transaction value c.i.f., defined as "the value at which the merchandise was acquired by the importer plus the cost of transportation and insurance to the port of destination in the importing country". 1/ It was felt that the c.i.f. valuation would provide more customs revenue (since the duty would be levied on the freight and insurance as well as on the value of the commodity). Moreover, since prices quoted by domestic producers could be close to the landed cost of similar or equal imported products, greater profit incentive would be provided to the development of new national industries. 2/

It was recognized that the c.i.f. valuation base created certain difficulties in applying different ad valorem rates to a group of products included in the same import declaration, since freight and insurance normally are quoted for the total shipment rather than by item. However, it was felt that these costs could be prorated either by value or by weight among the respective commodities.

1/ UN, ECLA, CCE, Informe de la Cuarta Reunion del Subcomite de Comercio Centroamericano, (E/CN.12/CCE/106) 27 September 1957, pp. 21-22.

2/ Sec UN, ECLA, Subcomite de Comercio Centroamericano, Nota de la Secretaria, Bases Uniformes de Aplicacion de los Derechos Arancelarios a la Importacion en Centroamerica, E/CN.12/CCE/SC.1/33, Rev. 1) 31 May, 1957, p. 9.

All five countries had imposed import taxes in addition to those contained in the tariff schedule. The subcommittee had to decide, therefore, what taxes should be considered for purposes of international comparison of the import tax burden. The recommendations of the ECLA Secretariat were adopted in this matter, namely, that total import charges (gravámenes totales) be included in the calculation including tariff duties, consular fees and any other charges or surcharges on imports which resemble tariff duties. ^{1/} Where particular imported products were subject to special import taxes, these, too, were included in the calculations, (e.g., certain items not produced in the country bore consumption taxes which were collected at the customs posts, and these taxes were included in calculating the total ad valorem equivalent for these items). The duties and charges included in the calculations made for the respective countries are as follows:

- (1) Costa Rica--tariff duties only.
- (2) El Salvador--the import duties, the 2-percent charge on the liquidation of customs duties, and the 6-percent consular fee on the c.i.f. value of imports.
- (3) Guatemala--the import duties, the 6-percent consular fee on the c.i.f. value of imports; the 6-percent surcharge on the f.o.b. value of imports ("assigned revenues" or "rentas consignadas" ^{2/}), and the 6-percent charge on the liquidated import value.
- (4) Honduras--the import duties and the 8-percent consular fee on the f.o.b. value of imported goods.

^{1/} UN, ECLA, Subcomite de Comercio Centroamericano, Manual para Calcular en Forma Comparativa los Impuestos a la Importacion en Los Paises Centro-Americanos, E/CN.12/CCE/SC.1/31 rev. 3) 1 November 1957, p. 4.

^{2/} The "assigned revenues" represent the difference between 6 percent ad valorem on the f.o.b. value of imports and the percent ad valorem represented by the tariff duties. It is calculated as follows: if the ad valorem equivalent of the tariff duties represent 6 percent or more of the f.o.b. value of the imports, this tax is not collected. If however, this ad valorem equivalent falls below the 6 percent f.o.b. valuation, the "assigned revenues" tax is collected only on the amount of the difference.

- (5) Nicaragua--the import duties and the 5-percent consular fee on the f.o.b. value of imported goods.

By 1960 these countries had consolidated some of their import charges into the tariff structure. After 1959, the additional charges listed above for El Salvador and Guatemala had been thus consolidated. On the other hand, the consular fee in Nicaragua was increased from 5 percent to 7 percent. Since many of the import charges outside the national tariff schedules were proposed to raise additional revenue, and since such rates will in effect be bound by the projected tariff equalization, 1/ the participating governments will need to develop alternative ways of increasing their incomes.

Non-tariff restrictions on trade are imposed from time to time by various Central American countries. In several of these countries (e.g., Guatemala, El Salvador, and Nicaragua) autonomous government agencies regulate trade in basic food products for the purpose of stabilizing supplies and prices to domestic consumers. In some cases, these agencies also regulate the major export products in any effort to maintain prices paid to producers. During World War II and again in recent years, the coffee-producing countries participated in international production and marketing agreements designed to stabilize coffee prices in the major consuming countries. Thus far these attempts have met with limited success.

Exchange controls

Neither Guatemala nor Honduras impose exchange controls (September 1962), although their respective central banks are empowered to institute such controls to protect the external value of the national currency. El Salvador imposed nominal controls in April 1961, consisting chiefly of scrutiny of international transactions.

1/ Rate changes will require international action by the member states.

In Costa Rica, the multiple-exchange-rate system that has been in effect since 1952 was greatly simplified on September 3, 1961, with the introduction of a new par value for the colon (6.625 colones per U. S. dollar). Official buying and selling rates which had previously been applied to most exports, as well as the selling rates applicable to 50 percent of imports, were eliminated.

After September 25, 1958, virtually all of Nicaragua's trade transactions were conducted at the official buying and selling rates. Certain nontrade transactions, chiefly tourist transactions, were made at a fluctuating free rate.

Paternalism

A paternalistic relationship between the central government and the people was introduced into Central America by the Spanish rulers during the colonial period. Such a relationship still persists in the five republics. This great dependence upon central authority for social and economic development, together with a fairly rigid system of social stratification, has served to retard economic development in the area. Governments did not produce balanced social and economic plans for the advancement of the people in these countries. Other conditions within the area have resulted in a widely-held pessimism concerning (a) government stability; (b) governmental ability to formulate and efficiently execute long-range plans for economic and social development; and (c) the ability or willingness of governments to collect taxes from all those liable under the laws, and the subsequent utilization of the revenues collected for sound purposes. In some instances this pessimism has been reinforced by rather extreme legislation designed to correct, all at once, inequities in the social system which have existed for centuries.

This combination of government paternalism and entrepreneurial pessimism has served to stifle private initiative and to generate a general unwillingness on

part of local investors to collaborate with governments when they do endeavor to improve the respective national economies. As a result of the many factors involved, national resources have remained largely unsurveyed and unexploited, imports have been substituted for possible domestic production, government finances have been restricted by a narrow tax base, national income has been unstable because of price fluctuations in Central America's few and vulnerable export products, and social unrest has required increasing attention from the central authorities.

The Central American economic integration program, according to ECLA and the participating countries, is intended to encourage greater participation by the private sector on which the success of the scheme depends. It is the general intention that barriers to private investment be removed to the extent possible, and it is recognized that a campaign to develop investment opportunities to create a capital market, and to inspire greater reliance on private enterprise for promoting economic development in the Central American area is required. This point is discussed in Chapter IV.

Public administration

The lack of skilled or experienced public administrators in the Central American countries has been partly responsible for the financial difficulties of both the central and local governments, as well as for the inadequacy of government programs for economic development. The shortage of trained managerial personnel has affected adversely the operation of the so-called autonomous and semiautonomous government agencies, such as development institutions and public utilities.

The Central American economic integration program, almost from its beginning, took cognizance of the urgent need for improving the quality of administration as

well as the supply of administrators. In early 1954 an advanced school of Public Administration in Central America (Escuela Superior de Administracion Publica America Central--ESAPAC) was established at San Jose, Costa Rica. It is financed by the five Central American governments and receives technical assistance from the United Nations. Its purpose is to train public officials, study administrative problems, and improve public administration throughout the area. In addition, individual Central American countries have received technical assistance from both the U.S. Government and the United Nations in the fields of taxation, banking, customs administration, public safety, personnel administration, census and statistics, and labor-management relations.

III. OBJETIVES OF THE CENTRAL AMERICAN INTEGRATION PROGRAM

Thus far the integration movement in Central America has had three phases: (1) the formative period, lasting from June 1950 through June 1958; (2) the organizational period, from June 1958 through December 1960; and (3) the implementation period which began in 1961 and was to continue until a common market could be achieved.

During the formative period, the Economic Cooperation Committee of the Central American Isthmus (CCE) was organized (1952). Numerous studies were undertaken and treaties were drafted providing for the eventual establishment of a regional common market. The CCE, with the technical advice of the UN Economic Commission for Latin America (ECLA), adopted a policy of gradual and progressive economic integration envisaging reciprocal benefits for the participating countries. This policy was incorporated into the economic integration treaties signed in June 1958. 1/ Two regional institutions were established: the Advanced School of Public Administration (ESAPAC), in January 1954, 2/ and a Central American Institute for Industrial Research and Technology (Instituto Centro Americano de Investigación y Tecnología Industrial--ICAITI), at Guatemala City, in January 1956.

During the organization period, extending from June 1958 through December 1960, a succession of multilateral economic integration treaties were initiated; not all of them, however, became effective. The status of eight treaties initiated during this period is shown in the frontispiece. 3/ Among them, the

1/ The Multilateral Treaty of Central American Free Trade and Economic Integration, and the Convention on the System of Central American Integrated Industries.

2/ With UN technical aid and funds provided by the five Central American Governments.

3/ All five countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) signed a series of four treaties in 1958 and 1959, only three of which were ratified by a sufficient number of countries to permit them to enter into force. Four additional treaties, negotiated in 1960, became effective on an area-wide basis. The four 1959 treaties sought to accelerate the integration program. They contemplated establishment, during a five-year period, of both a common external tariff

General Treaty of Central American Economic Integration, signed at Managua, Nicaragua, on December 13, 1960, ultimately became the key instrument for effecting economic integration among the participating states.

The General Treaty

The General Treaty of Central American Economic Integration became effective on June 3, 1961, for the first three countries that had ratified it-- Guatemala, El Salvador, and Nicaragua. On May 7, 1962, the Honduran Congress approved the treaty, and on April 27, 1962, Honduras deposited its instrument of ratification. Costa Rica signed the treaty on July 23, 1962, but had not deposited its instrument of ratification as of September 1, 1962.

For the ratifying states, the provisions of the General Treaty were to take precedence over all earlier Central American economic integration agreements, whether bilateral or multilateral, except for provisions in the earlier agreements not covered in the General Treaty. ^{1/} However, any Central American countries that did not ratify the General Treaty, or those that might later denounce it, were still to be governed by the earlier integration treaties they had ratified. ^{2/} Inasmuch as the English texts of the several integration treaties are appended to this report, the remainder of this chapter relates primarily to the provisions of the General Treaty, and to those provisions of

and intra-regional free trade for most import items, as well as a full common market over a ten-year period. The 1960 treaties provided for further acceleration of the program; they shortened to five years the period of achieving the full common market, and provided that duty-free treatment be accorded immediately to all but a few specified products originating within the boundaries of the signatory countries.

^{1/} Similar exceptions are found in the Multilateral Treaty of Free Trade and Economic Integration, effective June 2, 1959, among all the Central American countries except Costa Rica, and in the Treaty of Economic Association, effective April 28, 1961, among El Salvador, Guatemala, and Honduras.

^{2/} These treaties are: Multilateral Treaty of Central American Free Trade and Economic Integration; Central American Convention on the Equalization of Import Duties and Charges and its Protocol on Central American Customs Preference; bilateral treaties of free trade and economic integration signed by Central American governments; and the Treaty of Economic Association between Guatemala, El Salvador and Honduras.

earlier treaties that remain operative. Nevertheless, attention is given not only to the provisions of the Convention on the System of Central American Integrated Industries, but also the Convention Establishing the Central American Bank for Economic Integration (CABEI), both of which were designed to promote industrial development within the region.

Common market.--The contracting parties to the General Treaty agreed to establish among themselves a common market, which was to be brought into full operation within five years from the effective date of the treaty. In order to achieve a common market, they agreed to establish freedom of trade among the member states in the products originating in their respective national territories, and to provide a common external tariff for the participating countries.

In undertaking a Central American economic integration program, the contracting states have agreed to go beyond the creation of a customs union, as such, and intend to establish a common market. ^{1/} In addition to abolishing restrictions on the movement of goods, labor, and capital among themselves,

^{1/} Certain key terms, such as "free-trade area", "customs union", "common market", and "economic union" have been used with varying precision in the several Central American treaties and in the related literature. Hence, such terms will be employed in this report only in context as defined below. The definitions that follow accord with the usage generally employed in the technical literature:

a. Free-trade area: A free-trade area comprises two or more customs territories which eliminate import duties and other trade restrictions on substantially all trade between themselves in products originating within the territories. Each participant, however, retains its own tariff on imports originating in nonparticipating territories.

b. Customs union: A customs union comprises two or more customs territories which (1) eliminate import duties and other trade restrictions on substantially all trade between themselves in products originating in the territories, and (2) apply a common external tariff on imports from non-participating territories.

c. Common market: A common market incorporates the attributes of a customs union. In addition, it provides for the elimination of restrictions on the movement of labor and capital between the participating customs territories and for some harmonization of national economic policies and institutions (e.g., common labor laws, common agricultural policies, common banking practices, etc.) through action of the member governments.

d. Economic union: An economic union has the basic characteristics of a common market, but incorporates some cession of executive power by the member governments to a central authority.

the contracting parties have undertaken through national action, to harmonize their policies with respect to such matters as: tax incentives to investors; the application of excise taxes; production and trade in certain commodities; and statistical reporting. Moreover, as previously mentioned, certain Central American institutions were to be established.

Except for special treatment temporarily accorded certain domestically produced commodities (Annex A), the contracting parties agreed to accord one another unrestricted trade in all natural and manufactured items originating within their respective territories. More specifically, such items were exempted from import and export duties, consular fees, and other taxes and surcharges, whether such imports were national, municipal, or other. However, customary handling and storage charges, as well as the then existing exchange rate differentials, continued to apply. Goods originating in the territories of the member countries were to enjoy no less favorable treatment (national treatment) in the territory of any participating states, with respect to their distribution, marketing, and tax liability, than that accorded similar domestically produced commodities or those imported from third countries.

The temporary exceptions to the duty-free treatment mentioned earlier were to apply to specified products, whose importation, if accorded immediately such treatment, would either cause injury to existing producers or disturb official price support programs. With few exceptions, the products so identified were to be incorporated into the intraregional free-trade system by the end of the fifth year when the treaty became effective (i.e., by June 3, 1966). Meanwhile, bilateral schedules providing for progressive duty reductions and, in the case of certain items, for progressive reductions in quantitative restrictions, were to be applied to the individual products receiving such special

treatment. 1/

Under the terms of the Convention, the uniform Central America tariff was to follow the NAUCA import commodity classification and customs nomenclature. A system of compound rates was to be employed, having both specific and ad valorem components applicable to most tariff items; for the most part, the specific rates were to be levied on the basis of gross kilograms, and the ad valorem rates on the c.i.f. value of imports. 2/

1/ (UN, ECIA, Note by the Secretariat on the Common Market, E/CN.12/587, March 29, 1961, p. 5): The domestically produced items identified in Annex A consisted largely of the following categories:

a. Consumer goods for which the producers in the participating countries required time to adjust to the new competitive situations arising out of the creation of a customs union (e.g., textile products, oils and fats, beer, paint, and soap). For such commodities the General Treaty provided that fixed or progressively decreasing rates of duty were to be applied within the area of the customs union for a term not to exceed five years.

b. Staple commodities produced in most or all of the member states (e.g., rice, corn, and wheat flour). These items were to remain subject to quantitative controls until regional commodity agreements could be negotiated, establishing common trade and supply policies in the area.

c. Products currently manufactured in the member countries, the output of which was to be expanded to fill regional requirements (e.g., glass containers, tires, and paper). Pending the establishment of "integrated" operations, existing customs duties were to be continued in force for intraregional imports.

d. Domestic manufactures whose component raw materials had to be imported from third countries and for which raw materials the members desired to establish common external tariff rates to equalize costs of production within the common market (e.g., tobacco products; certain fibers; knitted goods; and textile products). Existing duties were to be continued in force until the common external tariff rates could be applied to imports of both the competitive manufactured products and the component raw materials.

e. Products subject to regulation under international agreement or government monopoly (e.g., coffee and coffee extracts, cane sugar, and cotton). In the case of such products, existing rates of duty or quantitative trade controls were to be maintained indefinitely.

2/ In order to unify customs and transit treatment of items to be exchanged within the customs union and to simplify the application of the NAUCA, the participating states also agreed to adopt a standard Central American customs code, as well as uniform transportation regulations, within one year from the effective date of the General Treaty, i.e., by June 3, 1962. These matters were still pending at the end of August 1962.

The Convention established the following procedures for determining the uniform rates of duty in the regional tariff:

a. The headings in the NAUCA nomenclature were allocated to 32 groups of related products. Within each group, the items were classified according to their state of advancement--raw materials, semifinished products, and goods for final consumption. Both maximum and minimum rates were established for each group, and within such range the rates of duty for individual items were negotiated. In general, low import duties, ranging from an equivalent of zero to 15 percent ad valorem, were fixed for raw materials and capital goods. For agricultural and industrial machinery, the maximum rates were not to exceed five percent ad valorem. For luxury products, and for consumption goods whose early production in Central America was deemed desirable, the duties were set in a range between 100 and 150 percent ad valorem. On the other hand, for those imported consumption items whose production by regional manufactures was not possible, the limits were set at 25 to 50 percent ad valorem. 1/

b. The items in the NAUCA classification were divided into two lists of commodities: List A identified the items on which duties were to become immediately uniform in all countries ratifying the treaty, and List B, the items on which duties were to be brought into uniformity over a 5-year period. 2/ The latter list identified the import items whose immediate "duty equalization" in the common external tariff was deemed to be inexpedient by virtue of "economic, fiscal, or other considerations". The modifications of duties on items in List B were to be made in equal installments during an individual transition period for each item; when the designated uniform rate was reached for all member countries, the items were to be transferred to List A.

c. The Convention provided that new items could be added to either List and that items could be transferred from List B to List A in accordance with the following schedule of priority:

1. Products which had been included in free-trade arrangements by virtue of bilateral trade treaties already in force among the contracting parties;

1/ For each tariff item, the point of reference in negotiating the uniform charge in each country was the total ad valorem equivalent of all charges on imports (except port, handling, and storage charges, but including consular fees), calculated in accordance with a Central American unit value stated in U.S. dollars. The member states agreed to peg their currency units to the dollar at the rates effective at the time of signing the Convention. They also agreed that any change in the relationship of the monetary unit to the dollar, by any member country, would be offset by an appropriate alteration of its tariff duties.

2/ Articles I and IV of the Convention specified a period of five years for this purpose. The existing rates of duty in each country were to remain in force during the first year, and the initial modifications were to begin in the second year. Subsequent modifications were to occur at 12-month intervals, so that the uniform rate would generally be achieved by the end of the fifth year.

2. Products manufactured in Central America;
3. Products of a type that could be produced in Central America within a short time;
4. Raw materials, intermediate products, and containers; the relative priority assigned to these items was to accord with their essentiality to the production and marketing of items under 1, 2, and 3, above.

By the end of 1961, uniform rates of duty had been negotiated on more than 98 percent of the NAUCA items, 1/ but the uniform rates on only about 50 percent of them had been put into effect by the states that had ratified the General Treaty (Guatemala, El Salvador, and Nicaragua). Honduras, which ratified the 1959 and 1960 treaties and protocols in early 1962, put the uniform tariff rates into effect in June of that year.

Under the Convention on the Equalization of Import Duties and Charges, the participating countries were obliged to renegotiate any trade agreements that they might have had in force with third countries that contained rates of duty lower than the rates established in the common tariff. 2/ Moreover, the participating countries agreed not to negotiate new agreements with nonmembers that were contrary to the spirit and objectives of the Convention. 3/

It was agreed that whenever the new uniform rate of duty for a given import was higher than the rate applied by any member country, and the product was not freely interchanged in the area of the customs union, the lower rate of duty was to apply throughout the entire area unless otherwise decided by the Executive

1/ By virtue of negotiations conducted under the Multilateral Treaty (1958), the Convention on the Equalization of Import Duties and Charges (1959), and the 1960 Protocol thereto.

2/ Such renegotiations were to have been completed within one year from the date on which the ratifying states had deposited their respective instruments of ratification of the Convention.

3/ The Equalization Convention also permitted renegotiation of particular rates of duty or tariff classifications through the Executive Council, at the request of any contracting party. These renegotiations were to be limited to the items submitted for consideration. Decisions were to be taken by unanimous vote of those countries for which the Convention was in force, and any changes were to be applied uniformly among them.

Council. Preferences granted within the region were not to be extended to third countries; this proviso, known as the "Central American Exception Clause", has been a traditional provision of agreements between Central American countries.^{1/}

National treatment.--The General Treaty contained no provision for granting equality of treatment (national treatment) to persons and capital moving from the territory of one contracting party to that of another. Presumably, the provisions of the 1958 Multilateral Treaty and the 1960 Treaty of Economic Association bearing on this subject were continued in effect. If such was the case, each contracting party agreed to extend to the others' equality of treatment with respect to: persons; property; capital investments; and the right to organize, administer, and operate manufacturing, commercial, or financial enterprises. A unique provision of the Treaty assured national treatment to local firms engaged in the construction of highways, bridges, dams, irrigation systems, electric power plants, housing, and other developmental projects in the territory of any member country.

The General Treaty also provided for national treatment of the products of one member state in the territories of the others. More specifically, the signatories agreed that domestic taxes on national products would apply equally to like products entering from other signatory countries and at least would be no higher than comparable taxes on like products from third countries. In addition, the contracting parties agreed not to discriminate in the distribution of products imported either from one another or from third countries. Special provision was made respecting consumption taxes, which could be levied by any contracting party only in conformity with the following conditions:

^{1/} Although this clause was not contained in the General Treaty, it apparently was to be carried over from the Multilateral Free Trade Treaty of 1958. In any event, preferences granted by participants in a customs union to each other are, by definition, refused to third countries.

a. Such a tax on a product produced in the region only in the levying country or not at all could be imposed in any amount deemed necessary.

b. A nonproducing country wishing to impose a tax on an article not produced in the levying country but produced elsewhere in the common market was required to obtain prior approval for such action from the Executive Council.

c. If a contracting state should impose a consumption tax on an item not produced within the common market, and if this item should later be produced in another member country (but still not in the levying country), the producing country could request the Executive Council to determine whether the tax was in keeping with the principles of the integration program. The member states agreed to abolish such taxes when notified by the Council of their unsuitability.

Existing state monopolies were to remain subject primarily to the laws of the respective countries. The establishment of new monopolies or changes in the status of existing ones, however, were to require prior consultation among the contracting parties for the purpose of placing the regional trade in these articles under special controls.

The contracting states agreed not to grant exemption from or reductions of customs duties on goods imported from outside the common market when comparable goods were produced within the area under satisfactory conditions of price, quality, and supply.

They also agreed to abstain from unfair business practices in their trade relations with one another. The Executive Council was designated as the arbiter of disputes arising in such matters, with instructions to advise the contracting parties concerning the countermeasures they could take. Export subsidies and export dumping were to be prohibited with respect to products of the contracting states entering intraregional trade. However, exemptions from internal taxes (e.g., from production, sales, or consumption taxes) which a signatory state might grant for the purpose of encouraging production and exportation were not to be deemed export subsidies under this treaty. Also, exchange premiums resulting from the sale of national currencies on the free market at an exchange rate higher than the official rate, were not ordinarily

to be deemed export subsidies. In case of doubt on the part of any contracting state with respect to these matters, however, the question was to be submitted to the Executive Council.

Incentives to industry.--The Member states agreed that incentives to industrial development contained in their respective industrial development laws and regulations, and other pertinent legislation, were to be made as uniform as possible. To that end, representatives of the participating states, in late 1961, drafted a regional industrial incentive law, setting forth a uniform industrial classification and administrative provisions that were to be applied to beneficiaries in these countries. This draft was to be submitted for the consideration of the respective member governments and when ratified, the agreement was to become a responsibility of the Executive Council.

"Integrated" industrial operations.--To attain the benefits offered by the Central American common market, the integration program envisioned an accelerated industrialization of the participating countries. Such industrialization was expected to (a) provide more and better-paying jobs to an expanding labor force; (b) contribute to efficient utilization of the area's natural resources; and (c) reduce the area's reliance upon imports. To carry out this aspect of the integration program, a Convention was signed in Tegucigalpa, Honduras, on June 10, 1958. ^{1/} The contracting states agreed therein to encourage and promote the establishment of new industrial operations and the development of existing ones within the framework of the integration program.

Article II of the Integrated Industries Convention defined "integrated industries" as "those industries which, in the judgement of the Central

^{1/} When drafted in 1956, the Convention on the System of Central American Integrated Industries was a detailed document containing 40 articles; in its final form there were only 13. The condensed version resulted from substantial disagreement over the interpretation of many of the articles; it was felt that the lengthier version created too many rigidities. As a result, the Convention signed in 1958 was confined largely to broad statements of principles and left the details to be determined in the separate protocols required for the establishment of successive "integrated industries."

American Industrial Integration Commission, comprise one or more plants which require access to the Central American market in order to operate under reasonably economic and competitive conditions even at minimum capacity." Thus, the term "integrated", as defined in the Convention, refers to industrial operations having at least the capacity to satisfy the demand of the common market area. Inasmuch as "one or more plants" producing a line of products as a group could be designated an "integrated industry", the Convention appeared to contemplate horizontal combinations, i.e., competing units of production (in the same or different countries) could combine under a common management to facilitate product specialization and enhance their capacity to meet the minimum requirements of "integrated industries". Moreover, inasmuch as the integration program was designed to increase the flow of goods within the common market and as mobility of capital was explicitly provided for in the integration agreement, vertical combinations (or integration) of industrial plants also appeared to be within the purview of the program. Units that would otherwise be selling to and buying from one another, would be operated as a unit; thereby facilitating coordination at the various stages of production. According to the UN Economic Commission for Latin America (ECLA), the establishment of "integrated industries" would avoid duplication of investment and would create more efficient production units. Increased efficiency was expected to result from large scale manufacturing operations made possible by an expanding regional market, as well as from greater specialization in the items produced.

To become effective, the Convention required unanimous ratification; at the time of writing, such ratification has not been achieved. In December 1960, however, the provisions of the Integrated Industries Convention were adopted, by reference, in the General Treaty of Central American Economic Integration,

thereby inaugurating the program. 1/

As a result of initial negotiations, at Managua during November 28-December 10, 1961, the following "integrated" plants were recommended to the participating governments:

El Salvador -- A copper wire and cable factory with an annual capacity of 2,000 metric tons of wire and cable and a capital equivalent to \$1,200,000.

Guatemala-- An existing tire and tube plant was recommended for "integrated" status. Its capacity was to be not less than 120,000 tires and 96,000 tubes a year, and its capitalization was to be equivalent to \$2,500,000.

Honduras -- A plant for producing raw materials for detergents and shoe polish with an annual capacity of 1,800 metric tons of alkyl sulfonic acids, alkyl sodium sulfonates, and other salts of alkyl sulfonic acids, and 360 tons of shoe polish. Its capital was to be equivalent to \$500,000.

Honduras was also recommended as the site for an integrated plant to manufacture glass containers.

Nicaragua -- A plant to produce caustic soda, chlorine, and chlorated insecticides. The proposed plant was to have an annual capacity of 8,300 metric tons of caustic soda, 3,000 tons of DDT, and 2,700 tons of chlorinated camplime and a capital approximating \$2,500,000.

It was contemplated that each of the above mentioned enterprises would be constituted with at least 51 percent of its capital of Central American ownership.

The word "industry" has been used imprecisely in the Integrated Industries Convention and in other ECLA literature bearing on the "integrated industry" program. The term has been used variously to mean an industry per se, a firm or enterprise, and a plant or factory. Actually, and especially in the case

1/ Article XVII. The contracting parties also agreed to conclude additional protocols within six months of the effective date of the General Treaty, specifying the procedures to be followed in establishing the "integrated industries".

of new lines of production (new "industries"), an industry could consist of only one plant; in other cases, it could comprise a single firm having more than one plant; and sometimes it could comprise numerous firms and numerous plants. Notwithstanding the lack of precision in which the term "industry" has been used in connection with the so-called "integrated industry" project in Central America an endeavor has been made in this report to identify which of the various meanings was intended in the particular context of the Convention. Where the terms of the Convention were applicable to all the foregoing, the word "operation" has been used.

Under the system of gradual integration envisaged by the 1958 treaties, "integrated" operations would be granted a preferred position by being assured immediate free and unrestricted trade of their output within the common market area, whereas similar items produced in "nonintegrated" operations were to be completely freed of import duties and charges levied within the area only after 10 years. In addition, priority was to be given in standardizing rates of duty on imports from outside the common market competitive with the products of "integrated" operations and on raw materials and containers required by such operations. The Convention envisaged that the "integrated" operations would also enjoy the benefits of the industrial development laws of the respective countries in which they were located. The General Treaty, which provided for the elimination of import duties within the common market on all but some 55 items, apparently nullified most of the tariff advantages accruing from the Integrated Industries Convention. It remained to be seen whether the Central American Bank for Economic Integration (discussed later) would accord preference in financing plants designated as "integrated industries" over plants which met other requirements but had not obtained this designation.

The Integrated Industries Convention called for equitable treatment in the allocation of "integrated industries" among the participating countries. To

enforce this policy in the initial stage of the program, the Convention stipulated that no participating country was to receive a second integrated plant until each other country had one. Such direct intervention in the distribution of "integrated" operations went beyond what had been contemplated either by the ECLA working group considering a Latin America common market, or by the Treaty of Montevideo creating the Latin American Free-Trade Association (LAFTA). This aspect of the Central American program has provoked considerable controversy because of the limitation on the free operation of market forces. 1/ The less developed countries in the region indicated clearly that they were unwilling to run the risk of having the "integrated" plants concentrated in countries which were farthest advanced.

Each protocol establishing an "integrated" operation was to stipulate details as to capacity, location, quality standards, composition and participation of capital, tax liability, and other details such as one might find in a charter of incorporation. Each such protocol and amendments thereto required legislative action by all member countries. An Executive Council, established under the General Treaty, was to determine which operations would be eligible for "integrated" status. 2/ Rules and criteria for carrying out these functions were being formulated at the close of 1961. The Economic Cooperation Committee identified 11 fields of "interest" for the development of regional industries, including the production of: refined petroleum, fertilizers, insecticides, and fungicides;

1/ UN, Economic Commission for Africa, The Significance of Recent Common Market Developments in Latin America (E/CN.12/64), 2 December 1960, p. 61.

2/ The Executive Council took over the functions assigned to the Central American Trade Commission and to the Central American Integrated Industries Commission under the 1958 agreements, as well as the powers and duties of the joint commissions set up pursuant to the bilateral treaties in force between the contracting parties. A discussion of the functions of the Trade and Integrated Industries Commissions is contained in a publication by Joseph Pincus, The Five Central American Economic Integration Agreements. International Cooperation Administration, Public Administration Division, Technical Resources Branch (PAD Prints and Reprints No. 31, March 4, 1960).

veterinary, biological, and pharmaceutical products; tires and tubes; paints, varnishes and dyes; ceramic products, glass plastic and metal containers; fishery products; soldered tubing; absorbent cotton; and timber, pulp and paper. The prospects for intraregional specialization in textile products were also explored and found to be encouraging.

Financing economic integration.--The General Treaty provided for the establishment of a Central American Bank for Economic Integration (CABEI) to promote and finance the balanced growth of the members' economies. The CABEI is discussed below, in the section on "The Convention Establishing the Central American Bank".

Currency convertibility.--The General Treaty reiterated the responsibility of the central banks in maintaining currency convertibility and avoiding speculation in foreign exchange. It provided that in the event that the payments relationships between the member states should be seriously affected by balance-of-payments difficulties, the Executive Council, in cooperation with the central banks, should consider the matter immediately and recommend measures for maintaining the unrestricted multilateral movement of merchandise and services within the area of the common market. If restrictions on international monetary transfers should become necessary in one of the member countries, these measures were to be applied in a nondiscriminatory manner to the other member states.

Administration of the economic integration program.--The General Treaty established three administrative organs for carrying out the policies of the CCE and applying the provisions of the General Treaty.

Central American Economic Council.--Prior to 1960, the policy-making organ of the Central American integration program was the Economic Cooperation Committee of the Central American Isthmus (CCE), constituted as an organ of ECLA. The formulation and direction of economic integration policy under the General

Treaty was assigned to a Central American Economic Council, which, like the CCE that it superseded, was composed of the Ministers of Economy of the member governments. The Council was to meet as necessary, or at the request of any contracting party. The Economic Council also was to review the work of the Executive Council and make whatever decisions it deemed appropriate.

Executive Council.--An Executive Council, consisting of one principal delegate and an alternate from each of the contracting parties, was created to administer the General Treaty, to initiate measures to achieve Central American economic union, and to resolve problems arising from the application of the treaty. Accordingly, the Council could suggest the negotiation of additional multilateral agreements to integrate the economies of the member countries. The Council was to meet as necessary, either at the request of a contracting party or upon call of the Permanent Secretary. To become effective, its resolutions required a majority vote of its members. In the event of a tie vote, the matter was to be referred to the Economic Council. 1/

Permanent Secretariat.--The General Treaty established a Permanent Secretariat to serve both the Economic Council and the Executive Council. The Secretariat, with headquarters at Guatemala City, was established on October 12, 1961. It is directed by a Secretary General appointed for a three-year term by the Economic Council. The Secretariat was authorized to establish the departments and offices necessary for the performance of its duties. In November 1961, it began issuing a monthly bulletin (Carta Informativa) respecting the progress of the integration program.

The Permanent Secretariat was charged with the supervision of all Central American integrations (including Bilaterals), present and future. An

1/ Before voting on such a matter, the Economic Council was to determine by unanimous vote whether the issue should be decided by an absolute majority or by a simple majority of all its members.

additional responsibility ~~was~~ the administration of ~~resolutions~~ by the Central American Economic Council and the Executive Council. Both the Executive Council and the Economic Council could assign projects and studies to the Secretariat. Its internal rules and regulations had to be approved by the Economic Council.

Although the budget of the Secretariat had to be approved annually by the Economic Council, each of the contracting parties agreed to contribute in local currency not less than the equivalent of US\$50,000 to its support. Its personnel were to enjoy diplomatic immunity, but other diplomatic privileges were granted only to the Secretary General and to actual members of the Secretariat.

Arbitration procedures.--The General Treaty provided that differences among the contracting parties over the interpretation or application of the treaty were to be settled in a friendly manner, insofar as possible through the Executive Council or the Economic Council. Failing such agreement, the dispute was to be submitted to arbitration.

Preliminary to the formation of a court of arbitration, each of the contracting parties to the General Treaty was to submit to the General Secretariat of the Organization of Central American States (Organizacion de Estados Centro Americanos--ODECA) the names of three judges of its Supreme Court. The Secretary General of ODECA and its governmental representatives were instructed to choose by lot, from the nominees, one arbitrator from each contracting party. Decisions of the court of arbitration required the concurrence of at least three judges and were to be binding for all the contracting parties.

Effects on third-country interests.--The parties to the General Treaty agreed not to conclude new bilateral agreements with countries outside the common market that would interfere with the objectives of Central American economic integration. Moreover, the members agreed to consult the Executive Council even before concluding agreements among themselves, so that the Council

could evaluate their effect on the program. A party adversely affected by any new trade agreement could obtain approval by the Council of measures to safeguard its interests. As previously noted, the Central American contracting parties agreed to maintain the "Central American Exception Clause" in most-favored-nation treaties negotiated with third countries.

In other matters affecting third-country interests, but not covered specifically in the General Treaty, reference was to be made to earlier agreements. Under the Multilateral Treaty of Central American Free Trade and Economic Integration (1958), the contracting parties agreed to renegotiate, or if this was not possible, to denounce any commercial agreements with third countries that violate the "Central American Exception Clause". And under the Convention on the Equalization of Import Duties and Charges (1959) the contracting parties agreed to renegotiate, within one year of depositing their respective instruments of ratification any bilateral or multilateral agreement with third countries which contained lower rates of duty than those negotiated under the Convention.

Application of the General Treaty.--The General Treaty became effective among the first three ratifying states on June 3, 1961, eight days after the third instrument of ratification had been deposited, and it became effective for the fourth state (Honduras) on April 27, 1962, the date of deposit of its instrument of ratification. ^{1/} Costa Rica signed the Treaty on July 23, 1962, but had not deposited its instrument of ratification by September 1, 1962.

Duration, renewal, and denunciation.--The General Treaty was to remain in force for 20 years from the initial date of its entry into force (on June 3,

^{1/} The instruments of ratification were deposited with the General Secretariat of the Organization of Central American States (ODECA).

1961) and could be extended indefinitely. Denunciation by any contracting party could be made only after the 20-year period had elapsed and was to take effect five years after such notice had been given. The treaty was to remain in force among its adherents as long as two states continued to apply it.

The Convention Establishing the Central American Bank

As early as its First Meeting in 1952, the Economic Cooperation Committee recognized the need of establishing a financial institution to assist the economic integration of Central America. Because of the slow progress of the program, however, nothing was done to prepare such a project until 1959. In that year, the ECLA Secretariat, in consultation with national and international organizations, began work in this field. In view of the accelerated integration program instituted by the tripartite treaty of February 1960, the committee members at the Second Extraordinary Meeting of the CCE in April of that year stipulated (as part of Resolution 101) that the statute for such a financial institution should be signed prior to January 1, 1961. The ensuing Convention Establishing the Central American Bank for Economic Integration (CABEI) was one of the three agreements signed at Managua on December 13, 1960, by Guatemala, Honduras, El Salvador and Nicaragua. Its terms provided that Costa Rica could adhere to the Convention at any time. The Bank was formally inaugurated at its headquarters in Tegucigalpa, Honduras, on May 30, 1961. It was accepted by the contracting parties as a substitute for a Development and Assistance Fund which was to have been created under provisions of the Treaty of Economic Association.^{1/}

Objectives.--The primary responsibility of the Bank, as its name implies, was to promote the economic integration of the member countries. Accordingly, under Article II of the Establishing Convention and Article XVIII of the General

^{1/} Article 42 of the Convention Establishing the Central American Bank for Economic Integration.

Treaty, the Bank had a mandate to promote balanced economic development (desarrollo económico equilibrado) among the participating countries. When feasible, preference was to be given to projects in the less developed member countries. The Bank established a policy limiting its loans for public works projects so that funds would be made available for developmental activities in the private sector. Investments in essentially local public works and manufacturing activities were specifically forbidden by the Bank's Establishing Convention.

Capitalization.--The initial authorized capital of CABEI was equivalent, in national currencies, to US\$16 million; this amount was contributed in equal shares by the four member countries. ^{1/} Of these shares, 25 percent had to be subscribed within the first 60 days after the Convention became effective (May 8, 1961), and another 25 percent within 14 months from that date. The remaining 50 percent was subject to call by the Governing Board. The vote of at least one Governor from each member country was required for this purpose. However, any increases in the Bank's capital require a unanimous decision of the Board.

The capital contributions of the member states were to be guaranteed free convertibility at official rates of exchange. To achieve this end, each paid-in local currency subscription had to be backed fully by U.S. dollar reserves in the contributing country. Any alteration in a member country's official exchange rate vis-a-vis the dollar would require its subscription in local currency to be adjusted accordingly.

The member states of CABEI received shares of capital stock of the Bank conferring equal rights and obligations upon their holders. These shares were to earn no interest and pay no dividends; the Bank's net operating profits were

^{1/} This capital was expected to be raised to the equivalent of US\$20 million when Costa Rica made its contribution to CABEI.

to be paid into a capital reserve. The liability of each member was limited to the amount of its capital subscription.

A total of \$10 million of loans and grants had been programmed for assistance to CABEI by the United States Government. On June 21, 1961, the International Cooperation Administration 1/ granted \$2 million to CABEI. On July 13th of that year the Development Loan Fund approved a long-term loan of \$5 million to it 2/ for financing medium- and long-term subloans for private projects related to the economic integration program; this credit was expected to become available in 1962. An additional grant of \$1 million was made by the Agency for International Development (AID) in July 1962. The Inter-American Development Bank had granted CABEI \$100,000 for the purpose of securing technical personnel and was prepared to consider worthwhile loans to that institution. In accordance with its authority to borrow in domestic and foreign capital markets, CABEI obtained a \$1 million line-of-credit from the Bank of Mexico and a similar one from the Bank of America.

CABEI's anticipated availability of ready capital in calendar years 1961 and 1962 was to have been as follows (in millions of dollars):

<u>Source of Funds</u>	<u>1961</u>	<u>1962</u>	<u>Total</u>
Member government paid in capital subscriptions.....	7.0	<u>3/</u> 3.0	10.0
Loans: Bank of Mexico.....	1.0	-	1.0
Bank of America.....	1.0	-	1.0
Agency for International Development.....	-	5.0	5.0
Inter-American Development Bank.....	-	10.0	10.0
Special Assistance Grants:			
Inter-American Development Bank.....	0.1	-	0.1
Agency for International Development	<u>2.0</u>	<u>1.0</u>	<u>3.0</u>
Total	<u>11.1</u>	<u>19.0</u>	<u>30.1</u>

1/ The International Cooperation Administration and the Development Loan Fund were merged in the new Agency for International Development (AID), effective November 4, 1961. The AID is under the Department of State.

2/ This loan was to be for 15 years at an interest rate of 4 percent per year. The Agreement was signed on August 16, 1962.

3/ Of which \$1 million was from El Salvador and \$2 million from Costa Rica; the latter signed the Establishing Convention on July 23, 1962.

Functions.--For the most part, the Bank was to make investments in the following types of activities:

- a. Public works projects to complete existing regional transportation, communication, and power systems or to remove disparities among the contracting parties in the basic sectors of production that had impeded their balanced development;
- b. Medium- and long-term investment projects, especially in manufacturing operations capable of supplying the common market or others capable of increasing intraregional trade and exports to third countries;
- c. Coordinated projects for encouraging specialization in farm and livestock production, with a view to increasing output to a level adequate to supply regional demand;
- d. Projects for financing enterprises which need either to expand operations, modernize production methods, or change the structure of their production to improve their competitive position;
- e. Other useful projects that would promote economic complementarity among the member countries and increase trade.

In extending credits, CABEI generally required guarantees from the respective governments up to 150 percent of the value of a loan; it could require other collateral as well. However, it did not require government guarantees for loans to the private sector. The Bank's first loan, approved on December 29, 1961, was to a Guatemalan firm newly established to manufacture pressed wood for use in home construction and furniture. The funds were used to purchase imported machinery and equipment. In accordance with the Bank's criteria, the annual interest rate was set at $7\frac{1}{4}$ percent, repayable in increasing quarterly installments over a 5-year period, after a 2-year grace period. On February 12, 1962, CABEI approved a \$100,000 (equivalent) loan to

a Honduran meat packing plant (Empacadora de Carnes de Choluteca, S.A. de C.V.). A third loan of \$68,000 (equivalent) was made to a pencil factory in El Salvador. All of these loans were made to enterprises which did not have formal "integrated" status.

In order to facilitate the accomplishment of its goals, the Bank was authorized to study and promote investment opportunities created by the economic integration program, and to schedule such investments on a priority basis. In addition to making its own loans, the Bank could participate with other investors in medium- and long-term lending activities. It could also assist, and act as intermediary for, member governments and private borrowers in negotiating loans from other financial institutions, and could assist its clients in the preparation of projects, either through its own technical staff or through technicians obtained elsewhere.

The Establishing Convention stipulated that "only projects that are economically sound and technically feasible" should receive CABEI financing. The Bank was not to make loans or assume liability for the payment or refinancing of earlier obligations incurred by prospective borrowers. Article 34 of the Establishing Convention repeated a proviso in the General Treaty to the effect that no project in any of the member countries could obtain guarantees or loans from CABEI until the respective member countries had ratified the following economic integration agreements: the General Treaty of Central American Economic Integration, signed December 13, 1960; the Multilateral Treaty of Central American Free Trade and Economic Integration, signed June 10, 1958; the Convention on the System of Central American Integrated Industries, signed June 10, 1958; the Central American Convention on the Equalization of Import Duties and Charges, signed September 1, 1959, and the Second Protocol thereto signed December 13, 1960.

In December 1961, in a pamphlet entitled "Basic Information for Parties Interested in Obtaining Loans" ("Informacion básica para los Interesados en Obtener Préstamos"), CABEI detailed the procedures for obtaining financial assistance. The Bank set \$25,000, or its equivalent, as the minimum amount that it would lend; no maximum limit was established. It indicated a willingness to finance up to 60 percent of any suitable investment in a private enterprise (with greater participation in exceptional circumstances). It would even finance working capital requirements in certain projects, when such capital constituted part of the total required financing. Loans could be made in any currency held by the Bank.

Amortization periods were to vary according to the needs of the individual projects, and grace periods not exceeding two years were provided. A schedule of annual interest rates was established for the respective type of currency loaned, as shown below:

<u>Currency</u>	<u>Interest rate</u>
U.S. Dollars.....	6 $\frac{1}{4}$ %
Other foreign currencies.....	7 - 7 $\frac{1}{2}$ %
Local Currencies.....	7 $\frac{1}{4}$ %

Organization and administration.--The organs of the Bank were to be its Governing Board (Asamblea de Gobernadores) and a Board of Directors (Directorio). It was also to have a president and such other officials and employees as were necessary to its operations.

All the powers of the Bank were vested with its Board of Governors. This body could delegate all but the following reserved powers to the Board of Directors: (a) calls on capital; (b) increases in authorized capital; (c) determination of the capital reserves proposed by the Board of Directors; (d) election of the Bank's president and determination of his salary; (e) establishing the remuneration of the Directors; (f) resolving appeals concerning the Director's interpretation of the Convention; (g) authorizing cooperative agreements with

other organizations; (h) designating external auditors of the Bank's financial position; (i) approving the audited balance sheet and the profit-and-loss statement; and (j) deciding on the distribution of the Bank's net assets in the event that its operations were terminated.

The Convention provided that the Board of Governors would be composed of the Ministers of Economy (or their representatives), and the presidents of the central banks (or their representatives) of the member countries. Each Governor was given one vote and could function with complete independence. One of the Governors was to be elected by the Board to serve as its president; his term was to extend from one regular session of the Governing Board to the next, a period of one year. The president was to preside at meetings of the Board of Directors and conduct the normal operations of the Bank. In the case of a tie, he could cast two votes. Extraordinary sessions could be held at the call of the Board of Governors or the Board of Directors. A quorum of the Board consisted of one-half plus one (five) of the total number of Governors. All decisions, except those mentioned previously, required the concurrent vote of one-half plus one of the total number of Governors. This formula assured the concurrence of at least three participating countries in the policy decisions of the Bank.

The Board of Directors was to be a permanent organ of the Bank and its members were to devote full time to the Bank's day-to-day operations. The Board was to determine the basic organization of the Bank at the operating level, i.e., the departments and personnel required to carry out its functions and perform such functions as were assigned to them by the Bank's president. In addition, it was to approve the Bank's budget and recommend the appropriate level of reserves to the Board of Governors. Decisions required a majority vote of all the Directors.

The Convention provided that the Directors were to be elected by the Board of Governors, with one Director for each member country. Their term of office was set at five years, but they could be reelected. Moreover, the Directors were to continue in their positions until their successors took office. Interim appointments could be made by the Board of Governors. The Directors were to be citizens of the countries they represented and were to be persons of recognized capacity and wide experience in economic, financial, and banking matters.

Below the Board of Governors, all officials and employees of the Bank were designated as international civil servants. The basic consideration in their employment, according to the Convention, was to be that of obtaining the highest level of efficiency, competency, and integrity. Due consideration was to be given to ensure adequate geographic representation among the respective countries. The Establishing Convention prohibited all officials and employees--except the Governors in their respective countries--from taking an active part in political matters. 1/

The Establishing Convention had an indefinite duration and could not be denounced for 20 years from the date on which it became effective. Thereafter, any denunciation was not to become effective until five years from its date of presentation. The Convention was to continue in force as long as there were two adhering parties.

The Convention Establishing the Clearing House

Representatives of the Central banks of the five Central American countries concluded a Convention Establishing a Central American Clearing House on June 28, 1961. 2/ The Clearing House was situated within the Central American Bank for

1/ Other provisions of the Bank's Establishing Convention dealt with matters of interpretation and arbitration, and privileges, immunities, and exemptions. (See Appendix IX).

2/ The internal by-laws of the Clearing House were adopted in September 1961 and operations were begun October 1, 1961.

Economic Integration, as required by its Convention, and CABEI was represented on the Board of Directors of the Clearing House. Under the by-laws, the Executive Director of the Clearing House must be CABEI's representative on the Board of Directors.

The objective of the Clearing House was to increase trade among the member countries by facilitating the use of national currencies in intraregional transactions. The Clearing House as of June 30, 1962, had a working capital equivalent to US\$1,200,000 subscribed in equal amounts by the four participating central banks. The capital was to be increased to the equivalent of US\$1,500,000 when the Costa Rican central bank made its contribution. Subscriptions were to be made in local currencies (75 percent) and in U.S. dollars (25 percent). The local currency contributions were to be used as backing for a "Central American Peso"--the unit for settling accounts between the member countries. ^{1/} This Central American Peso would be at par with the U.S. dollar.

Under the clearing house arrangement, a limited amount of credit, not exceeding the equivalent of US\$225,000, could be made available to any participating country whose debit balance in the Clearing House exceeded its local currency contribution.

The Clearing House would also compile, analyze, and disseminate among its members: information on monetary, banking, and financial policies practiced in the common market; the foreign exchange and credit positions of the participating states; and other surveys leading to the adoption of uniform policies and procedures by the central banks in the region.

^{1/} The dollar exchange rate for the respective local currencies was fixed on the respective dates of ratification of the Convention. Any modifications in the exchange rate of a member's local currency required a proportionate adjustment in the country's contribution so that the working capital of the Clearing House would remain unchanged.

IV. Problems Confronting the Central American Common Market

The primary problem confronting the Central American economic integration program was that of overcoming the inherited impediments to satisfying the growing wants of the people in that region: the area's limited resources, its largely unskilled and illiterate labor force, its critical shortage of management personnel, its insufficient and inadequately trained public administrators, its shortage of investment capital, and the unfavorable prospects of some of the region's major export crops. ECLA had aptly characterized the countries in this area as having a "common denominator of general under-development". ^{1/} The project for establishing a customs union, and eventually a common market, in Central America accordingly envisaged ultimately substantially greater integration of national resources (including manpower), economic policies, institutions, laws, and customs into an area-wide pattern of economic development.

Integration of agricultural policies.—Among the problems confronting the Central American integration program were those of increasing the area's per capital consumption, achieving regional self-sufficiency in staple food-stuffs, and increasing the domestic supply of various raw materials for industry. The architects of the integration program hoped to solve these problems by coordinating production and trade policies of the participating countries in a manner which would ensure equitable and stable prices for producers.

In order to develop a regional agricultural program, an Agricultural Development Subcommittee of the COE was created in September 1959, to study

^{1/} UN, ECLA, Central American Economic Integration and Development
(E/CN.12/586) 28 Mar. 1961, p.3.

agricultural problems susceptible of solution at a regional level. This sub-committee was composed of high-ranking government officials responsible for important aspects of agricultural policy in the respective countries.

Inasmuch as some time would be required to study the problems relating to particular commodities and to arrive at satisfactory solutions, all the staple commodities of Central America (corn, beans, rice, wheat, flour, and sugarcane) were accorded special treatment in the General Treaty (Annex A). For virtually all of these commodities, existing unilateral import and export controls were retained for the full permissible 5-year period. Within three years of the effective date of the General Treaty, however, special protocols were to be signed "to regulate trade, coordinate supply policies, and ensure complete freedom of trade" for these products.

Other important objectives of the agricultural integration program included: (a) construction of a regional network of facilities for the processing, storage, and distribution of commodities; (b) introduction of standard commodity grading and inspection systems; (c) coordination of national price-support policies; (d) establishment of adequate low-cost credit facilities for growers and vendors of agricultural products; (e) establishment of a reliable crop reporting system; (f) reformation of landholding systems to permit economies of scale; (g) development of agricultural research programs; and (h) provision for pools of agricultural equipment at selected locations to serve the needs of particular localities. 1/ By the close of 1961, some of these projects were under study by the ECLA secretariat; others remained to be investigated.

From the viewpoint of the Central American integration program, the

1/ "Central American Economic Integration Programme: Evaluation and Prospects, "UN, ECLA, Economic Bulletin for Latin America, Oct. 1959, pp. 41-42.

problems of agriculture could well prove to be more difficult than those of industry. 1/ The bulk of the region's population depends directly on agriculture for a livelihood and many industrial workers fall back on agricultural activities during slack seasons or plant shutdowns. The objective of bringing both literacy and technology, to the agricultural sector is a tremendous undertaking even for larger countries with more and better-trained administrators. Yet it was generally recognized that if the objective of increased industrialization were to be achieved in any reasonable period of time, the purchasing power of the farm population would have to be raised substantially to provide a market for manufactures.

Achievement of "balanced development".— "Balanced development" was an avowed objective of the Central American economic integration program. However, ECLA, the Central American states, and CABEI differed materially concerning the meaning of this term. ECLA interpreted balanced development as signifying equal rates of economic growth of the participating countries. Its interpretation was reflected in ECLA's insistence on the establishment of "integrated industries" and their equal allocation among the members of the Central American common market. Moreover, in advocating the elimination of capital waste and of duplication of investment, ECLA appeared to favor the establishment of monopolies in Central America, especially in manufacturing operations. On the other hand, most of these member states, as well as the Central American Bank for Economic Integration, interpreted balanced development to mean that the less-developed countries would receive temporary special

1/ This discussion relates primarily to agricultural production or internal consumption. The export sector is entirely different in organization and structure and is not especially a subject for economic integration.

consideration with respect to financial and technical assistance made available to the region, but without violating the principle of comparative advantage.

At Managua, in late 1961, a draft protocol to the Integrated Industries Convention was negotiated by the contracting parties, designating certain "integrated industries" for each of them. 1/ While this allocation procedure was not necessarily to apply to the location of subsequent "log-rolling" approach that would interfere with the location of such enterprises at the most suitable sites. Since strictly industrial considerations might cause new facilities to be located in regions that could provide the best combination of suitable transportation, low-cost power, adequately-trained labor force, and an ample supply and variety of raw materials and intermediate products, those countries in a less favored position might insist upon simultaneous negotiations in establishing new regional manufacturing activities. It appeared likely that political restrictions might thus interfere with the operation of the principle of comparative advantage while the less advanced countries endeavored to catch up with their more developed neighbors. Unless considerations relating to industrial efficiency predominate in the allocation of "integrated" operations, industrial development in the Central American common market as a whole could be retarded rather than accelerated.

The emphasis of the integration program on "integrated" operations could impede the establishment of small-scale factories adequately suited to supplying purely national or local markets. This interference would occur if: (a) investors feared actual or potential competition from regional enterprises; (b) capitalists expected higher returns from investments in large-scale operations;

1/ This protocol was submitted to the respective governments for consideration, and was to be submitted for signature at the extraordinary meeting of the Ministers of Economy scheduled for July 1962

(c) CABEI developed a regional capital market and publicized the opportunities for investments in regional activities; and (d) regional enterprises offered greater inducements to skilled labor than those which could be afforded by small-scale establishments. In the event that the latter occurred, the small-scale plants would probably suffer a decline in the quality of their output and would be at a greater competitive disadvantage with similar regional activities.

In keeping with the stated policy of taking maximum advantage of the principle of comparative advantage throughout the common market, the participating states drafted a uniform industrial incentives law which, when ratified, would replace national legislation on this subject. The integration program also contemplated the harmonization of social legislation and monetary and fiscal policies among the participating countries.

Existing plants in certain participating countries already have begun to prepare themselves for the anticipated increased competition--and increased opportunity--that might result from the developing Central American common market. This preparation has resulted in the expansion of capacity, the installation of modern equipment, and utilization of technical assistance in improving production techniques and quality of output. An important motivation for these activities has been the desire by individual concerns to preempt all or a substantial part of the Central American market, either by obtaining formal "integrated" status, or by virtue of superior competitive ability.

While the integration program was designed to improve existing facilities for production and to establish new plants, there was nevertheless a danger that a struggle among either new or existing producers for regional predominance might result in a wasting of resources. Realization of the maximum benefits of specialized industrial production and the conservation of capital would require not only the highest degree of cooperation among the participating governments, but their deliberate rejection of investments which they deemed better suited

to other countries in the common market.

Many Central American businessmen have had considerable misgivings concerning the benefits which might accrue from the integration program. Some feared the competition that might result from the free movement of goods under the common market. Others, while supporting the idea of regional integration, would have preferred the more gradual approach provided for in the 1958 treaties to the accelerated program inaugurated by the 1960 treaties. The Chamber of Commerce and Industries of Cortes, representative of Honduras' industrial interests, stated that it did not oppose gradual regional economic integration, but did object to its rapid implementation. It feared that the accelerated program would jeopardize Honduras' incipient industrialization and would cause serious injury to numerous small factories that could not compete with concerns in more industrialized neighboring countries. 1/

One of the missing elements in planning the integration program has been an analysis of the sectors of potential injury, the alternatives available to the injured concerns, and the financial resources that would be required for dealing with such cases. Apparently, the Central American governments expected that most of the establishments adversely affected by the program would either turn to production of other items or adapt their facilities to different lines of production. In either case, the injured enterprises would be eligible for technical and financial assistance through the Central American Bank for Economic Integration.

Protection of consumer interests.--The probable effects of a common market on intra-area competition have been widely debated, and there is substantial

1/ Camara de Comercio e Industrias de Cortes, Carta Semanal, vol. XII, No. 587, Apr. 29, 1961, p. 1; vol. XII, No. 591, May 27, 1961, p. 2.

disagreement on this point. ^{1/} For Central America, the competitive impact would depend in large part on the resolution of the monopoly controversy discussed above. The likelihood that new monopolies may be created in this region may be substantial because of the provision in the Central American integration program for the establishment of "integrated industries". Such operations might be accorded a favored position in the area over competing activities not accorded "integrated" status.

ECLA had argued that the increased efficiency accruing from "integrated" operations, through economies of scale and specialization of output, would benefit the consumer. Implicit in this position were assumptions that economies of scale could be achieved in many lines of production in Central America, and that the common market would attract the necessary capital, entrepreneurship, labor, and technology—that is, that it would ensure the type of investment climate required for the establishment of efficient production units. Numerous ECLA-sponsored studies on Central American economic integration, however, presented little evidence to support these assumptions. At the time of this writing, moreover, apparently no studies had been made to ascertain if and how the benefits of any possible economies of scale would in fact be passed on to consumers.

The manufactures which the Economic Cooperation Committee deemed to be suitable for "integrated treatment" (i.e., enterprises in selected lines of production that might be designated as "integrated" and thereby be accorded the aforementioned special status) include: refined petroleum; fertilizers,

^{1/} See Bela Balassa, The Theory of Economic Integration. Homewood, Ill., 1961, especially chapter 8.

insecticides, and fungicides; veterinary, biological, and pharmaceutical products; tires and tubes; paints, varnishes, and dyes; ceramics; glass, plastic, and metal containers; fisheries products; welded tubing; absorbent cotton; timber; and pulp and paper. Perhaps no one would suggest that any of these lines required only a single plant even in Central America, for the achievement of economies of scale. Indeed, ECLA concluded that in the manufacture of tires and tubes, insecticides, and probably glass containers, at least two plants could operate economically in supplying the regional market.

As previously noted, the establishment of monopolies has been of serious concern to both the Central American governments and to private investors. A discussion of some possible effects of such monopolies on consumer prices in the participating countries follows.

a. If demand for the product were relatively inelastic with respect to price, the monopoly price that the "integrated" operation might choose to set could remain in the neighborhood of the price of its imported counterpart; under such circumstances the benefit of any economies of scale to the consumer would be marginal. Conceivably, some benefits might accrue to the local economies from this situation by virtue of increased payments to labor and increased tax revenues. On the other hand, if luxury imports were to be increased by virtue of the large profits accruing to the monopolist, as would seem likely in Central America, and export earnings did not increase, these circumstances could aggravate the balance-of-payments problem in the country where the enterprise was located.

Were the establishment of a monopoly deemed to be necessary to encourage entry into certain lines of production in Central America, the member governments could deem it desirable to impose price controls to ensure that some of the benefits deriving from economies of scale be passed on to the consumer. The

Convention on a System of Central American Integrated Industries provided that protocols establishing "integrated" operations could stipulate quality norms to be followed by the producer "and other standards...for the protection of the consumer" (Article XXI, b). This clause could be interpreted as permitting the imposition of price controls over suppliers thus accorded monopoly privileges. 1/

The difficulty of imposing price controls in Central America, however, would be considerable, both with respect to determining the appropriate prices and to their administration. Moreover, de facto "integrated" operations (i.e., enterprises having capacity adequate to supply the entire Central American market but which had not been accorded "integrated" status) were not covered by the Integrated Industries Convention and their operations therefore would be governed by the price policies of the respective countries in which they were located, rather than by the regional Executive Council.

Another limitation on the utilization of price controls is the fact that the resultant prices have to be high enough to permit a sufficient profit--by Central American standards--to attract entrants into comparable fields of investment. The resulting prices, therefore, might not be appreciably lower than those that would be established by a pure monopolist in the absence of controls. Thus, economies of scale in themselves would not be sufficient to maximize the social benefits to the consumer.

Mobility of labor.--The movement of persons (except political exiles) across Central American borders has been confined almost entirely to agricultural

1/ Under the General Treaty (Article VIII), existing state monopolies remain subject to internal legislation of the contracting parties and in certain instances, to the provisions of Annex A of the treaty. If new monopolies are created or the status of existing ones altered, are to be held between the signatories for the purpose of placing the intraregional trade in monopolistically produced items under a special trading system.

workers seeking seasonal employment, or to families seeking land on which to support themselves. In some cases migration has occurred without knowledge of the location of political boundaries.

Some Central American countries actually discouraged immigration from within the region, although for different reasons. For example, Costa Rica desired to maintain the European character of its people, while in Honduras, the government sought to preserve available agricultural land for the growing local population. Another motive, in certain of these countries, was to confine professed economic opportunities to domestic entrepreneurs. Few, if any, Central Americans have migrated within the area solely to obtain employment in manufacturing or service industries. Intra-regional mobility of labor therefore, probably has been limited as regards both the number of persons involved and the economic importance of such mobility to the respective countries.

Provisions for freedom of movement and national treatment of persons, property, and capital of the Central American states in each other's territories are found in both the Multilateral Treaty (1958) and the three-nation Treaty of Economic Association (1960). Inasmuch as these provisions do not conflict with the General Treaty of Central American Economic Integration, they presumably remain in force among the ratifying states. Nevertheless, the reluctance of individuals to leave their own countries, combined with the attitudes of the respective Central American governments towards intraregional migration, probably will not produce any substantial increase in the mobility of labor within the common market area. However, some movement of skilled labor may take place according to the comparative rewards offered for its services by enterprises in the member countries.

Mobility of capital.—The flow of investments across national frontiers has

been a major objective of the Central American economic integration scheme. This objective was directly related to the policy of establishing operations which would benefit from the so-called "economies of scale" as well as from the specialization of production. National treatment of Central American capital was provided for not only in the economic integration agreements but in the respective national industrial development laws as well. 1/

Little information is available on the flow of private capital between the five Central American countries, but a certain amount of such investment is known to have taken place. For example, a Honduran watch manufacturer had investments in watch factories in Guatemala and Costa Rica; the largest candy-producing firm in Honduras had financial interests in a similar one in Guatemala; and several Salvadorans owned properties in Honduras for the purpose of growing cotton and coffee. Nevertheless, the ratio of intraregional private investment to total foreign investment in the area probably is quite small, largely because of the following factors: a general shortage of risk capital in these countries, inadequate knowledge of investment opportunities in neighboring countries, and the absence of a capital market in Central America.

The establishment of a common market, together with a regional development bank for financing enterprises of importance to the area, could be expected to increase the flow of investments across the borders of the participating countries. So also would the anticipated establishment of area-wide marketing systems by regionally oriented enterprises. Profit-minded Central Americans, aided by such organizations as the Central American Bank for Economic Integration, the U.S. Agency for International Development (AID), and ICAIII, pre-

1/ Joseph Pincus, The Industrial Development Laws of Central America. International Cooperation Administration, Office of Industrial Resources, Technical Aids Branch, March 1961

sumably would survey the regional markets for investment opportunities. To foster such enterprise, various national associations of commerce and industry in Central America had been affiliated by means of a regional federation to disseminate information respecting investment opportunities throughout the common-market area. 1/

A change in the traditional means of capital formation also was required to increase the mobility of capital. There was an overwhelming preponderance of individually-owned enterprises in Central America, and even corporations for the most part were closely-held family undertakings. Central American investors needed to be educated in the modern forms of business organization, where equities usually are widely held, rather than closely held by families.

At the government level, joint participation in public works projects was to be expected. Such projects might undertake the development of electric power and highway facilities, as well as the improvement of navigation and irrigation facilities of waterways serving more than one country. These activities probably would be accorded technical and financial assistance by the Central American Bank for Economic Integration and other international lending agencies.

The intraregional movement of capital was expected to be facilitated by the recently established Central American Clearing House, which began operations in October 1961. The institution's principal objective was to promote the use of Central American currencies as a means of facilitating intraregional trade and investment.

Promoting the economic integration program.—If a high degree of intraregional capital flow is to be attained, private investors, both within Central America and abroad, need to be informed of the economic advantages of regional

1/ The Federation of Central American Industrial Chambers and Associations (Federación de Camaras y Asociaciones Industriales Centroamericanas-FECAICA) was organized in September 1960, both to promote and defend Central American industry.

integration. Although the need for promotional activities was recognized by the countries concerned, little provision had been made for such activities, except as contained in the Convention Establishing the Central American Bank for Economic Integration. Article 2 of the Convention charged the Bank with promoting the balanced economic development of the member countries, and Article 7 (a) authorized CABEI to promote investment opportunities created by the integration program and to establish priority schedules for financing suitable projects.

The success of CABEI's promotional activities depends not only on the vision and energy of its management, but also on the policies adopted by the Central American states to govern regional economic development. The management of CABEI, in cooperation with the Permanent Secretariat of the General Treaty, hoped to work closely with the respective Central American governments in planning and coordinating national policies within a regional framework.

It appeared likely that the individual countries would develop their own promotional activities to attract investors. For example, Costa Rica's Law for the Protection and Development of Industry 1/ provided that the proceeds of a one-percent tax on net profits of industries benefiting under this law be used to promote sales of nationally produced articles. 2/ To assist the respective governments in discovering and promoting industrial opportunities, the former U.S. International Cooperation Administration sent technicians to each of the Central American countries during 1961 to study their industrial potentials.

In August 1961, a special meeting of the Inter-American Economic and Social Council was held at Punta del Este, Uruguay, to discuss measures for implementing

1/ Ley de Proteccion y Desarrollo Industrial (article 39)

2/ Joseph Pincus, The Industrial Development Laws of Central America. International Cooperation Administration, Office of Industrial Resources, Technical Aids Branch, March 1961

the U. S. Government-proposed "Alliance for Progress". One topic on the agenda dealt with Latin American economic integration; a report on that subject, prepared by a group of experts, 1/ made the following recommendation respecting the promotional aspects of integration program:

"In order that maximum advantage be taken of the opportunities for expansion of the Latin American markets, it is important that a vigorous and imaginative promotion of projects in the public and private sectors be undertaken. Although there are existing agencies serving promotional functions, the search for investment opportunities generated by the integration of the area has not yet attained a satisfactory scale. This activity should be carried out on a multinational level. Its implementation should further the objectives of the two existing economic association, and be channelled through the organs of LAFTA and the Central American General Treaty, without prejudice to any other promotion activities undertaken by one or more of the Latin American countries which do not belong to either of these groups.

"Promotion should be carried out through an organization created for this purpose, or through existing Latin American organizations. In the latter case, the institutional apparatus utilized should have full administrative and functional autonomy."

Commercial treaty relations with third countries and with the GATT.--

Having only a limited number of important trading partners, the Central American countries had concluded few trade agreements with countries outside the region when the integration program became effective. Nevertheless, they had negotiated a substantial number of so-called "treaties of establishment". 2/

The United States had negotiated bilateral trade agreements with all five Central American countries prior to World War II. During the period 1951-62, however, all of these trade agreements, except those with Honduras, and El Salvador were terminated, each at the request of the Central American sig-

1/ OEA/Ser. H/X.1, 30 June 1961

2/ See Appendix Table 1.

natory. 1/ The tariff concessions in the agreement with Nicaragua were terminated in 1938; the remaining provisions of the agreement were terminated when that country became a signatory to the General Agreement on Tariffs and Trade (GATT) in 1950. Protracted economic difficulties in Costa Rica made it impossible for its government to apply the terms of the trade agreement. The Guatemalans claimed that their antiquated customs laws and tariffs, which required revision (and were revised in 1958), made compliance with the agreement increasingly difficult.

Various reasons were cited to support the Honduran request for terminating its trade agreement with the United States, including the observation that with the passage of time the agreement no longer served its original purpose. Officials contended that the agreement impeded implementation of the Honduran Government's policies: (1) by prohibiting increased taxation of certain imported luxury items, such as automobiles; (2) by preventing the extension of increased protection to certain domestic industries; and (3) by preventing revisions of duties on scheduled items for fiscal purposes. The Government of Honduras also indicated that its participation in the Central American common market obligated it to take the steps necessary, including denunciation of agreements with third countries, to bring its tariff rates to the level of the common external Central American tariff. 2/ The Government of

1/ In the case of the 1935 trade agreement with Honduras and the 1937 trade agreement with El Salvador, the tariff concessions and those articles of the agreements relating to such concessions terminated. However, the general provisions of the agreements providing for most-favored-nation treatment in customs matters, national treatment in the application of internal taxes, and equitable treatment in the administration of import policy in general, remained in effect. (Federal Register, Vol. 26, Jan. 20, 1961, p. 507; and vol. 27, July 3, 1962, p. 6253.)

2/ U.S. Department of Commerce, Foreign Commerce Weekly, Jan. 9, 1961, pp. 8 and 12.

El Salvador requested the termination of the tariff concessions in its bilateral agreement with the United States in order to make possible its full participation in the Central American common market, particularly with respect to the common external tariff. 1/

On January 1, 1962, the United States had in force the following trade agreements or commercial treaties with members of the new Central American common market: (1) a trade agreement with El Salvador (1937); (2) treaties of friendship, commerce, and navigation with Costa Rica (1851), Honduras (1927), and Nicaragua (1956); (3) an agreement respecting double taxation with Honduras (1956); and (4) investment guaranty agreements with all five countries. 2/

Nicaragua was the only Central American country to become a contracting party to the General Agreement on Tariffs and Trade (GATT). Its accession became effective May 28, 1950. 3/ On that date, Nicaragua's 1936 trade agreement with the United States was terminated. In March 1951, Nicaragua obtained approval from the Contracting Parties to the GATT for the establishment of a limited free-trade area with El Salvador under a bilateral treaty signed March 9, 1951 (effective Aug. 21, 1951) 4/ Under the terms of this treaty,

1/ U.S. Department of Commerce, International Commerce, July 16, 1962, p. 41.

2/ Department of State, Office of the Legal Advisor, Treaty Affairs Staff, Treaties in Force on Jan. 1, 1962. (Department of State Publication 7327.) Dates shown in parentheses are those when the agreements were signed.

3/ On Dec. 29, 1952, Nicaragua denounced the General Agreement, effective Feb. 27, 1953, but rescinded its denunciation on Jan. 17, 1953, and requested an extension of time to sign the Torquay Protocol. The Contracting Parties extended to June 30, 1953, the time limit for that date. (U.S. Tariff Commission, Operation of the Trade Agreements Program, Sixth Report, July 1952-June 1953, (Report No. 193, Second Series), pp. 25-26.

4/ GATT, Basic Instruments and Selected Documents. Volume II, Geneva, May 1952, p. 30.

each country agreed to accord reciprocal duty-free treatment to specified products originating in the other country. The waiver accorded by the GATT freed Nicaragua from its most-favored-nation obligations respecting the products specified in its treaty with El Salvador. 1/

When the draft of the Central American Multilateral Treaty of Free Trade and Economic Integration was completed in March 1956, Nicaragua requested and obtained from the contracting parties to the GATT a waiver authorizing that countries on the commodities listed in the Multilateral Treaty. Nicaragua agreed to seek extension of the coverage of the treaty to meet GATT requirements within a specified time (10 years) and to submit periodic progress reports to the GATT. The Multilateral Treaty was signed in June 1958 and became effective a year later. Nicaragua submitted its first report to the GATT at its 17th Session late in 1960, citing the fact that the treaty had only been in operation during one year and indicating that the resultant lack of statistical data made it impossible to show the development of trade under this treaty. Such data were promised from mid-1961, whereupon the contracting parties agreed to postpone examination of trade developments until that year. On December 13, 1960, however, Nicaragua signed the General Treaty of Central American Economic Integration which, it will be recalled, superseded the 1958 Multilateral Treaty. At the 19th Session of the GATT in November 1961, Nicaragua obtained permission to adjust its tariff duties to the levels of the Central American common external tariff. However, the Contracting Parties required Nicaragua to renegotiate with any GATT members concerned those concessions affected by this adjustment. Renegotiation was to take place within three years from November 1961.

1/ U.S. Tariff Commission, Operation of the Trade Agreements Program, Tenth Report, July 1956-June 1957. (Report No. 202, Second Series), p. 29.

V. THE U. S. INTEREST IN THE CENTRAL AMERICAN COMMON MARKET

The United States has been keenly interested in the political stability and economic development of Central America since those countries obtained their independence from Spain in 1921. The U. S. Government was the first non-Latin American country to recognize the Federal Republic of Central America, in 1825, and in the following year, a treaty of commerce and friendship was concluded between the two governments. Since that time, the U. S. Government frequently has given its advice and moral support to the Central American states in their numerous attempts at unification, both directly and at international conferences of ECLA and the inter-American Economic and Social Council (IA-ECOSOC).

Recent expressions of official U.S. policy toward Central American integration have included the following: (a) On November 18, 1958, a statement by the U. S. delegation to the Committee of 21, 1/ said, in part, "We have also supported a free-trade area in Central America. We have also made it clear that we are prepared, through the Export-Import Bank, to consider dollar financing required by regional industries in Latin America". (b) On December 27, 1958, Dr. Milton Eisenhower's report to President Eisenhower recommended that the United States....."participate with the five republics of Central America, and Panama, if possible, in a regional conference, either at the Ministerial or technical level, to stimulate public and private enterprise, and private industrial enterprises, to take a positive approach in helping Central America and Panama to end that new industries, guaranteed free access to the entire market of the'

1/ The "Act of Bogota" is the name popularly given the resolution establishing a broad new social development program for Latin American countries, that was signed on September 12, 1960, by the Organization of American States Special Committee to Study the Formulation of New Measures for Economic Cooperation (Committee of 21).

participating countries, would be established." (c) At the close of the State visit of the President of El Salvador on March 13, 1959, President Lemus and President Eisenhower issued a joint statement reporting their agreement that a Central American common market ". . . could make a significant contribution to the stimulation of capital investment in those nations and to the steady improvement of the welfare of the people. This subject will receive continued study by the two Governments with a view to taking appropriate action to carry on those sound plans already contemplated". During the latter part of 1959, the United States provided certain technical assistance to Guatemala, El Salvador, and Honduras, leading to the conclusion of the Treaty of Economic Association in February 1960. (d) on March 13, 1961, President Kennedy told Latin American diplomats and U.S. Members of Congress that "we must support all economic integration which is a genuine step toward larger markets and greater competitive opportunity. The fragmentation of Latin American economies is a serious barrier to industrial growth. Projects such as the Central American common market and free trade areas in South America can help to remove these obstacles."

1/ It was in this address that President Kennedy proposed the "Alliance for Progress" (Alianza para el Progreso) to accelerate the development of the economies of the Western Hemisphere countries during the decade of the 1960s.

(e) On June 21, 1961, less than two months after the inauguration of the Central American Bank for Economic Integration, the United States Government announced the signing of an agreement for a grant of \$2 million by the International Cooperation Administration to that institution. This was followed by an authorization on July 13, 1961, of a Development Loan Fund credit of \$5 million to CABEI to private borrowers. The proceeds were to be relent by CABEI to private borrowers. The grant and the loan were to contribute portions of the \$10

1/ Address of The President at a White House Reception for Latin American Diplomats, Members of Congress and their Wives, March 13, 1961.

million in loans and grants programmed for assistance to CABET by the U. S. Government in November 1960. 1/ (f) In March 1961, the U. S. Government appointed a Regional Economic Advisor for Central America, with headquarters at Guatemala City, to serve as liaison with the Permanent Secretariat of the integration program and to keep this government informed of its progress. In July 1962, a regional mission of the Agency for International Development was established near the Permanent Secretariat of the General Treaty in Guatemala City, to coordinate U.S. assistance with the integration program.

U. S. Government policy toward the Central American economic integration movement, as well as toward the Latin American Free-Trade Area (LAFTA), may be summarized as that of favoring the formation of these regional economic unions so long as they meet the following criteria: (1) They are to be economically sound; (2) they are to expand trade and advance the welfare of the peoples (3) they are to be consistent with the provisions of the General Agreement on Tariffs and Trade (GATT).

Measured against the long and unsuccessful history of Central American integration, accomplishments of the present program are substantial. As mentioned in Chapter I, this degree of progress has been due mainly to a shift in concept of regional unification from the political to the economic.

The principal factor favoring the successful economic integration of five countries of Central America appears to be the Central American Bank for Economic Integration, with its facilities for promoting and financing economic development, including its services as an intermediary with foreign and international lending institutions. The United States, in providing financial, technical, and political support to the Central American economic integration program,

1/ Department of State Press Release No. 627, of November 3, 1960

and especially to CABEL, has created a new environment for advancing and encouraging the economic unification of the countries of Central America. The financial and technical elements of this support had been missing from the earlier Central American integration efforts.

U. S. Trade with Central America

The United States occupies a predominant position in Central America's international transactions (Table 27). This situation applies not only to the area as a whole but to the individual countries as well (Table 28).

The traditional import surplus in U.S. trade with Central America which prevailed prior to World War II had disappeared by 1939 (Table 29). During 1939-41, a new trend appeared to be emerging: a rate of growth of U. S. exports to Central America greater than that of U. S. imports from Central America, resulting in growing U. S. export surpluses. This development was interrupted by the effects of United States entry into the war. Notably, these effects included a decline in U.S. exports accompanied by a sharp rise in imports from the Central American countries as the latter added strategic materials to their traditional shipments to the United States and at the same time improved their terms of trade with this country.

In the immediate postwar years 1946-49, U.S. exports again surged ahead of its imports from Central America and produced substantial export surpluses (\$38.8 million in 1947). But once more this situation was interrupted by an emergency--this time the United Nations police action in Korea, in which the United States played a key role. Thus, during 1950-54, the bilateral interchange of merchandise with Central America again generated sizeable U. S. import surpluses (\$37.2 million in 1953).

TABLE XXVII.

Central America: Summary balance of payments, total
and with the United States, 1959

(In millions of dollars)		
Item	Total	With the U. S.
Goods and services:	-60.0	-69.7
Trade balance-----	-0.6	-33.7
Total services-----	-60.0	<u>1/</u> -36.0
Private capital-----	24.0	10.1
Official long-term capital and grants:	13.3	28.6
Grants-----	24.5	24.5
Loans (net)-----	7.3	4.1
Other capital-----	<u>2/</u> -18.5	-
Total transactions-----	-33.3	-31.0

1/ Estimated by applying the ratio derived from Guatemalan data on its bilateral balance of payments with the United States in 1960 (Banco de Guatemala, Memoria Anual Y Estudio Economico-1960, Guatemala, 1961, pp. 131 and 154). Net service payments to the United States represented some 60 percent of the total for Guatemala in that year.

2/ Represents mainly increased subscriptions to Bretton Woods Organizations or dealings in World Bank securities.

Sources: Based on data in International Monetary Fund, Balance of Payments Yearbook; and Agency for International Development, Economic Data Book for the Countries of Latin America.

TABLE XXVIII.

Central America: Partial balance of payments with the United States, by country, 1959 1/

(In millions of U.S. dollars)

Item	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Total
Merchandise:						
Exports, f.o.b.-----	40.3	40.3	64.6	37.3	19.6	202.1
Imports, c.i.f.-----	-50.1	-44.2	-73.7	-33.0	-34.8	-235.8
Trade balance-----	-9.8	-3.9	-9.1	4.3	-15.2	-33.7
Selected capital transactions:						
Private capital (net)-----	-0.7	-5.8	19.8	-4.2	1.0	10.1
Direct investment-----	2/	2/	16.0	-3.0	2/	13.0
Portfolio investment-----	-0.2	-2.9	3.5	-0.2	-1.2	-1.0
Short-term-----	-0.5	-2.9	0.3	-1.0	2.2	-1.9
Official grants and loans:						
Grants-----	7.4	1.0	10.1	5.6	4.5	28.6
Loans received (net)-----	5.9	1.0	10.7	3.4	3.5	24.5
Development Loan Fund-----	1.5	-	-0.6	2.2	1.0	4.1
Export-Import Bank-----	-	-	0.1	0.4	-	0.5
Mutual Security Program-----	3.0	-	0.1	1.0	1.2	5.3
	-	-	-	1.3	-	1.3
Repayments-----						
Development Loan Fund-----	1.5	3/	0.8	0.5	0.2	3.0
Export-Import Bank-----	-	-	-	3/	-	3/
	1.5	3/	0.8	0.5	0.2	3.0

1/ Excludes data on travel, investment income, and services, as no separate data for transactions with the U.S. are available. The movements of private capital respecting portfolio investments and short-term changes were assumed to be transactions with the United States.

2/ Negligible. 3/ Less than \$50,000.

Source: Based on data in International Monetary Fund, Balance of Payments Yearbook; and International Cooperation Administration, Economic Data Book for the countries of Latin America.

TABLE XXIX.

United States: Balance of trade with Central America,
1935-60 1/

(In millions of dollars)

Year	Exports	Imports	Balance
1935-----	16.9	23.0	-6.1
1936-----	17.6	24.6	-7.0
1937-----	24.2	31.2	-7.0
1938-----	24.8	27.5	-2.7
1939-----	32.3	30.7	1.6
1940-----	38.2	34.4	3.8
1941-----	46.6	40.4	6.2
1942-----	31.9	43.3	-11.4
1943-----	40.6	49.5	-8.9
1944-----	45.5	53.4	-7.9
1945-----	57.9	65.8	-7.9
1946-----	90.9	72.8	18.1
1947-----	151.6	112.8	38.8
1948-----	146.6	123.1	23.5
1949-----	141.6	127.3	14.3
1950-----	142.7	169.3	-26.6
1951-----	175.3	200.0	-24.7
1952-----	178.3	202.2	-23.9
1953-----	180.5	217.7	-37.2
1954-----	199.2	212.6	-13.4
1955-----	218.7	208.3	10.4
1956-----	247.3	195.4	51.9
1957-----	260.0	207.3	52.7
1958-----	236.9	199.2	37.7
1959-----	201.6	175.0	26.6
1960-----	212.3	179.2	33.1

1/ Exports of domestic merchandise; imports for consumption, unadjusted for the undervaluation of banana imports.

Source: Official statistics of the U.S. Department of Commerce.

From 1955 on, the U.S. balance of trade with Central America turned strongly in favor of the United States. The principal reasons for this trend were that (1) the terms of trade between the two areas improved considerably for the United States; (2) while Central America increased the number of suppliers of its principal imported commodities, the United States nevertheless was able to maintain a leading position in supplying the Central American markets. On the other hand, Central American sales to the United States declined because of increasing competition from other Latin American countries and from Africa, and because of increased Central American marketings in Western Europe (particularly in the Federal Republic of Germany and in Italy), Japan, and within the Central American area itself.

The foregoing shifts in the Central American trade balance with the United States are summarized below; annual averages for the periods shown are stated in millions of dollars:

Central American trade with the United States
in selected periods, 1935-60

<u>Period</u>	<u>Exports</u>	<u>Imports</u> 1/	<u>Balance</u>
1935-38-----	20.9	26.6	-5.7
1939-41-----	39.0	35.2	+3.8
1942-45-----	44.0	53.0	-9.0
1946-49-----	132.7	109.0	+23.7
1950-54-----	175.2	200.4	-25.2
1955-60-----	229.5	194.1	+35.4

1/ Unadjusted for undervaluation of banana imports.

In spite of the marked shifts both in the value and in the balance of trade between the United States and Central America during the years 1935-60 the relative share of Central America in total U. S. merchandise trade on the whole has been remarkably stable. U.S. exports to the five countries combined

remained less than 1.5 percent of total U.S. exports; likewise, aggregate U.S. imports from Central America have rarely exceeded 2 percent of total U.S. imports. The major change in the pattern of trade during the entire period 1935-60 has been that, since 1946, Guatemala has replaced Honduras as the leading Central American customer for U.S. exports; during the same period, Guatemala was the leading Central American supplier of U.S. imports.

Trade between the United States and Central America has consisted of the exchange of U.S. final manufactures and intermediate products for Central American food crops (coffee, bananas, sugar), forest products (lumber, chicle, and at times rubber and abaca), and metal ores (silver, lead, zinc).

U.S. imports from Central America.--United States purchase from the Central American countries have consisted of a relatively few primary products--agricultural, forest, and mineral--which have relatively low but widely fluctuating unit values. As shown in Table 30, such items accounted for 97 percent of the value of U.S. imports from Central America in 1960. The major commodities imported, in descending order of their value, were coffee beans, bananas, beef, soluble coffee, cane sugar, shrimp, cocoa beans, lumber, sesame seed, chicle and lead ore.

United States imports for consumption from Central America, unadjusted for undervaluation of banana imports, rose sharply in the years 1946-53, when they grew at the rate of about 17 percent annually. However, the longer-term growth rate, for 1946-60, approximated only 7 percent a year, reflecting a decline in U.S. imports from Central America since 1953. These imports (unadjusted) were valued at \$73 million in 1946, they reached a peak of \$218 million in 1953, and declined in subsequent years, falling to \$175 million in 1959. In 1960 they rose slightly to \$179 million.

TABLE XXX.

Items for which U.S. imports for consumption from each of the five Central American countries amounted to \$100,000 or more in 1960 1/

Tariff Schedule :		Commodity description : (abridged)	Foreign Value					
Para- graph Number	Commodity Class Number		Guatemala: \$1,000	El Salvador: \$1,000	Honduras \$1,000	Nicaragua: \$1,000	Costa Rica: \$1,000	Total \$1,000
701	0018 500	Boneless beef:						
		Fresh, chilled or frzn.	-	-	1,268	3,114	5,220	9,602
1761	0083 250	Rock lobster (crawfish)						
		tails: Not canned-----	-	-	-	-	317	317
1618	0087 200	Shrimps & prawns-----	111	4,214	134	146	241	4,846
	1300 000	Plantains: gr. or ripe--	-	-	130	-	-	130
	1301 000	Bananas, gr. or ripe 2/-	8,277	-	12,261	220	8,463	29,221
758	1351 000	Coconuts. in the sh ll--	-	-	317	-	-	317
1653	1501 300	Cocoa or cocoa beans----	191	-	-	-	-	-
776	1511 300	Coffee essences, substi-					3/ 3,413	3,604
		tutes & adulterants----	3,405	4,097	-	-	-	7,502
1654	1511 000	Coffee, raw or green----	1/40,764	22,337	15,474	8,423	14,150	101,148
1768(2)	1530 000	Cardamon seed-----	224	-	-	-	-	224
501		Cane or beet sugar:						
	1610 009	-Testing by the polari-						
		scope, not above 100%--	-	-	-	4/1,555	4/ 728	2,283
	1610 960	-Testing by the polari-						
		scope, not above 96%---	-	370	-	4/2,279	-	2,649
	1610 970	-Testing by the polari-						
		scope, not above 97%---	-	370	-	-	-	370
	1610 990	-Testing by the polari-						
		scope, not above 99%---	-	-	-	5/ 117	467	584
502	1640 000	Molasses not used for						
		the extraction of sugar;						
		or for human consump-						
		tion. (incl. blackstrap):	-	-	-	135	-	135

92T

(Cont'd)

TABLE XXXI.

United States: Total and major imports from Central America, 1946-60

(In millions of dollars)

Year	Total 1/	Coffee (green)		Bananas		All other items	
		Total	Percent of Total	Value 1/	Percent of Total	Value	Percent of Total
1946—	102.2	41.0	40.1	44.6	43.6	16.6	16.2
1947—	162.6	69.8	42.9	70.1	43.1	22.7	14.0
1948—	181.2	78.1	43.1	79.0	43.6	24.1	13.3
1949—	189.3	86.1	45.5	83.9	44.3	19.3	10.3
1950—	238.1	125.3	52.6	92.3	38.8	20.5	8.6
1951—	271.2	155.1	57.2	88.5	32.6	27.6	10.2
1952—	265.1	156.5	59.0	81.1	30.6	27.5	10.4
1953—	275.3	167.1	60.7	83.2	30.2	25.0	9.1
1954—	263.0	162.3	61.7	74.5	28.3	26.2	10.0
1955—	249.0	162.1	65.1	64.0	25.7	22.9	9.2
1956—	243.4	141.2	58.0	75.4	31.0	26.8	11.0
1957—	260.8	146.8	56.3	77.8	29.8	36.2	13.9
1958—	258.5	137.3	53.1	76.6	33.5	34.6	13.4
1959—	202.7	107.8	53.2	54.8	27.0	40.1	19.8
1960—	210.4	101.1	48.1	60.4	28.7	48.9	23.2

1/ Based on estimated undervaluation adjustments made by U.S. Department of Commerce, Office of Business Economics, Balance of Payments Section, as adapted by ECLA to U.S. imports from Central America. (See "Central America's Post-War Exports to the United States", UN, Economic Bulletin for Latin America, Vol. V, No. 2, November 1960, Appendix Table II.

Source: Based on official statistics of the U.S. Department of Commerce.

TABLE XXX. (Cont'd)

Tariff : Schedule A:			Foreign Value					
Para- graph Number	Commodity: Class Number	Commodity description (abridged)	Guatemala: \$1,000	El Salvador: \$1,000	Honduras \$1,000	Nicaragua: \$1,000	Costa Rica: \$1,000	Total \$1,000
1803(1)	4204 400	Hardwoods: 6/ Mahogany : other than not further : manufactured than sawed : and flooring-----						
405	4209 580	"Other" hardwood ply- : woods-----	-	-	177	965	117	1,259
	4209 790	Veneers: Hardwood: Other : than Philippine hardwood:	134	-	-	-	-	134
391	6503 000	Lead-bearing flue dust : matters & ores of all : kinds (recoverable)-----	-	-	-	-	134	134
1615(g)	9850 680	Repairs and alterations : on articles exported for: : that purpose, & metal : articles (except precious : stones) manufactured or : processed in U.S. & ex- : ported for further pro- : cessing, and the export- : ed article, as processed: : returned to U.S. for : further processing-----	246	-	957	-	-	1,203
1615(a)	9919 900	"Other" U.S. articles : returned-----	-	-	-	-	144	144
1615(b)	9920 500	Metal containers of do- : mestic or foreign manu- : facture, exported empty : & ret'd filled, or ex- : ported filled & returned: : empty or filled-----	829	200	224	197	591	2,041
			-	-	214	113		327

TABLE XXX. (Cont'd)

Tariff : Schedule A:		:						
Para-	Commodity :	Commodity description :	Foreign Value					
graph :	Class :	(abridged)	:	:	:	:	:	:
Number :	Number :		Guatemala:	El Salvador:	Honduras	Nicaragua:	Costa Rica:	Total
:	:	Total of items listed--:	56,330	31,715	32,226	20,071	33,553	173,895
:	:	Percent of total-----:	96.8	98.7	97.5	96.3	95.9	97.0
:	:	Total of imports-----:	\$58,166	32,134	33,065	20,832	34,986	179,183

1/ Preliminary

2/ Values not adjusted for undervaluation

3/ Revised data

4/ Includes imports of beet sugar, reported under a separate Class No. 1580--etc., prior to 9/1/60.

5/ No imports of beet sugar prior to 9/1/60.

6/ i.e. boards, planks, deals, flooring, siding, and fums, rough, planed, or dressed or otherwise processed but not further manufactured and grooved

Source: Compiled from official statistics of the U. S. Department of Commerce.

Table 31 shows U.S. imports from Central America during 1946-60 adjusted for undervaluation of bananas. Three main trends appeared in the data for these years: (1) After 1948, coffee replaced bananas as the United States' major import from Central America; (2) since 1957, U.S. imports of "all other" items from Central America became increasingly important; and (3) as a result of greater diversification, the proportions accounted for by coffee and bananas in U.S. imports from Central America declined in the years 1956-60. The importance of these changes to future U.S. imports from Central America are examined below.

Coffee.--The principal economic characteristic of coffee has been the sharp fluctuations in its price. This is reflected in Table 32, which shows the trends in quantity, value, and unit value of U.S. imports of green coffee from Central America during the years 1946-60. In the past decade, U.S. imports of green coffee from Central America and from the rest of Latin America declined while those from Africa increased as shown below, in million pounds.

U.S. imports of green coffee from major supplying areas,
selected periods 1946-58, and annually 1959-60

Period	: From Central : From rest of :							
	: Total :		: America :		: Latin America :		: From Africa :	
	: quan- : Quan- :		: Per- :		: Quan- :		: Per- :	
	: tity : tity :		: cent :		: tity : cent :		: tity : cent :	
1946-49 average-----	2,730	279	10	2,392	37	53	2	
1950-54 average-----	2,572	314	12	2,089	81	159	6	
1955-58 average-----	2,711	279	10	2,055	76	359	13	
1959-----	3,065	285	9	2,366	77	401	13	
1960-----	2,917	267	9	2,129	73	494	17	

Various factors accounted for this shift, including (1) larger Central American coffee exports to Western Europe, particularly to the Federal Republic

of Germany and Italy; (2) a declining per capita consumption of coffee in the United States (from an average of 20.1 pounds in 1946 to 15.9 pounds in 1959); and (3) a growing price disparity between the mild and the harsher varieties, resulting in increased use of the less expensive harsh coffee both in domestic blends and in the expanding manufacture of soluble coffees. The premium quality of Central American coffees, as compared with coffees from other suppliers entering the U.S. market in 1960, was reflected in their comparative unit values, as follows:

<u>Supplying area</u>	<u>Average price per pound</u>
Central America-----	37.5¢
Rest of Latin America---	36.1
Africa-----	25.1

TABLE XXXI.

United States: Total and major imports from Central America, 1946-60

(In millions of dollars)

Year	Total 1/	Coffee (green)		Bananas		All other items	
		Total	Percent of Total	Value 1/	Percent of Total	Value	Percent of Total
1946-----	102.2	41.0	40.1	44.6	43.6	16.6	16.2
1947-----	162.6	69.8	42.9	70.1	43.1	22.7	14.0
1948-----	181.2	78.1	43.1	79.0	43.6	24.1	13.3
1949-----	189.3	86.1	45.5	83.9	44.3	19.3	10.2
1950-----	238.1	125.3	52.6	92.3	38.8	20.5	8.6
1951-----	271.2	155.1	57.2	88.5	32.6	27.6	10.2
1952-----	265.1	156.5	59.0	81.1	30.6	27.5	10.4
1953-----	275.3	167.1	60.7	83.2	30.2	25.0	9.1
1954-----	263.0	162.3	61.7	74.5	28.3	26.2	10.0
1955-----	249.0	162.1	65.1	64.0	25.7	22.9	9.2
1956-----	243.4	141.2	58.0	75.4	31.0	26.8	11.0
1957-----	260.8	146.8	56.3	77.8	29.8	36.2	13.9
1958-----	258.5	137.3	53.1	86.6	33.5	34.6	13.4
1959-----	202.7	107.8	53.2	54.8	27.0	40.1	19.8
1960-----	210.4	101.1	48.1	60.4	28.7	48.9	23.2

1/ Based on estimated undervaluation adjustments made by U.S. Department of Commerce, Office of Business Economics, Balance of Payments Section, as adapted by ECLA to U.S. imports from Central America. (See "Central America's Post-War Exports to the United States", UN, Economic Bulletin for Latin America, Vol. V, No. 2, November 1960, Appendix Table II.)

Source: Based on official statistics of the U.S. Department of Commerce.

TABLE XXXII.

United States: Imports of green coffee from Central America,
1946-1960

Year	Quantity	Value	Unit value	Indices: 1953=100		
				Quantity	Value	Unit value
	(Million pounds)	(Million dollars)	(Cents per pound)			
1946-----	233	41.0	17.6	69	25	36
1947-----	285	69.8	24.6	84	42	50
1948-----	294	78.1	26.6	87	47	54
1949-----	305	86.1	28.2	90	52	57
1950-----	330	125.3	38.0	98	75	77
1951-----	319	155.1	48.6	94	93	98
1952-----	319	156.5	49.1	94	94	99
1953-----	338	167.1	49.4	100	100	100
1954-----	264	162.3	61.5	78	97	124
1955-----	298	162.1	54.4	88	97	110
1956-----	244	141.2	58.2	72	84	118
1957-----	268	146.8	54.8	79	88	111
1958-----	305	137.3	45.0	90	82	91
1959-----	285	107.8	37.8	84	65	77
1960-----	267	101.1	37.9	79	60	77

Source: Based on official statistics of the U.S. Department of Commerce, as reported (through 1959) in "Central America's Post-War Exports to the United States", UN, ECLA, Economic Bulletin for Latin America, Vol. V, No. 2, October 1960, Data for 1960 added by the author.

The marginal production of coffee in Central America has had little or no influence on the world market for this commodity. The regional economic integration program, therefore, probably would have little effect on the volume of Central American coffee exports; however, it could assist in the promotion of this product abroad and in the presentation of a uniform area position at international conferences. More direct effects on the supply and price of coffee might be realized through a Latin American union, or an international commodity arrangement on coffee production and trade.

The United States at times has imported soluble soffee to supplement domestic output. For example, the United States imported nearly 5,000,000 pounds in 1960, valued at \$8.2 million. Almost all of these imports came from El Salvador, Guatemala, and Mexico. The unit value of imported soluble coffee, shown below, was four to five times that of the high-quality green coffee purchased from Central America.

	<u>Quantity</u> <u>(1,000</u> <u>pounds)</u>	<u>Value</u> <u>(1,000</u> <u>dollars)</u>	<u>Unit value</u> <u>(Dollars</u> <u>per pound)</u>
El Salvador-----	2,062	4,097	1.99
Guatemala-----	2,047	3,405	1.66
Mexico-----	513	635	1.24
Other countries-----	73	29	0.39
Total-----	<u>4,695</u>	<u>8,165</u>	<u>1.74</u>

Bananas.---While the importation of bananas into the United States in general increased both in quantity and value during 1946-60 (Table 33), the amount imported from Central America in general declined after 1947. The dichotomy of trends reflected mainly a shift in U.S. suppliers, and to some extent, increased Central American marketings in Western Europe. Thus, whereas Central America supplied 65 percent of the quantity and 68 percent of the value of U.S. imports of bananas, in 1947, by 1960 these proportions

had fallen to 38 and 37 percent, respectively. In that year, U.S. imports of bananas from Ecuador, in both quantity and value, exceeded those from all five Central American countries combined, as shown below:

	<u>Quantity</u> <u>(1,000</u> <u>pounds)</u>	<u>Foreign</u> <u>value</u> <u>(1,000</u> <u>dollars)</u>
Ecuador-----	1,751	30,948
Central America-----	<u>1,370</u>	<u>29,221</u>
Honduras-----	614	12,261
Costa Rica-----	369	8,463
Guatemala-----	376	8,277
Nicaragua-----	11	220
Panama-----	578	13,159
Dominican-----	176	4,169
Other-----	<u>49</u>	<u>1,140</u>
Total-----	<u>3,924</u>	<u>78,639</u>

TABLE XXXIII.

United States: Total imports of bananas and imports
from Central America, 1946-1960

(Quantities in millions of pounds; values in millions of dollars) 1/

Year	Total		From Central America		Percent from Central America	
	Quantity	Foreign value	Quantity	Foreign value	Quantity	Foreign value
	:	:	:	:	:	:
1946-----	2,500	71	1,477	45	59.1	63.4
1947-----	2,904	103	1,895	70	65.3	68.0
1948-----	3,080	119	1,950	79	63.3	66.4
1949-----	3,200	137	1,844	84	57.6	61.3
1950-----	3,256	151	1,845	92	56.7	60.9
1951-----	3,287	155	1,769	89	53.8	57.4
1952-----	3,367	159	1,621	81	48.1	50.9
1953-----	3,463	163	1,664	83	48.0	50.9
1954-----	3,336	162	1,432	75	42.9	46.3
1955-----	3,267	161	1,255	64	38.4	39.8
1956-----	3,298	165	1,461	75	44.3	45.5
1957-----	3,344	188	1,378	78	41.2	41.5
1958-----	3,364	189	1,535	87	45.6	46.0
1959-----	3,541	149	1,302	55	36.8	36.9
1960-----	3,924	161	1,477	60	37.6	37.3

1/ Values adjusted for undervaluation.

Source: U.S. Department of Commerce, Balance of Payments Supplement to the Survey of Current Business, as adapted by ECLA (see source to Table 32).

The shift in the source of U.S. banana imports reflected a transfer of U.S. direct investments from Central American to lower-cost Ecuadoran operations. There is reason to believe that the output of bananas in Central America during the period 1960-70 will tend to stabilize at around 1960 levels, so that Central American earnings from such exports will be mainly a function of price.

In the past, declining quanta of U.S. banana imports frequently were accompanied by stable or rising prices. The relative stability of banana prices according to ECLA, "appears to have reflected a conscious pricing policy, feasible when a few large producer-exporter companies maintain close corporate ties with those predominating in the importing and distribution sectors." ^{1/} With the shift from bananas to coffee as the major export from Central America, the area's economy became much more vulnerable to external market fluctuations that were largely beyond its control. The need to develop alternative exports has become increasingly apparent in recent years.

All other products,---Apart from coffee and bananas, there were only a few items of significance in the U.S. import trade with Central America during 1946-60 (see Table 34). Although the value of these remaining imports into the United States trebled between 1946 and 1960, their share percentage-wise increased only from 16 percent to 23 percent of total U.S. imports from Central America.

^{1/} "Central America's Post-War Exports to the United States", in UN, ECLA Economic Bulletin for Latin America, October 1960, p.25. See also "The International Banana Market--Its Evolution and Prospects", in Economic Bulletin for Latin America, October 1958, pp. 13-34, for a discussion of the pricing and marketing of bananas.

The composition of "all other" imports from Central America has been changing in recent years. Thus, abaca, produced during World War II under contract with the U.S. Government, almost disappeared from the list by 1960. By that time, the United States also was importing lesser amounts of citronella oil and chicle as substitute materials and suppliers had become available. On the other hand, imports of Central American beef, soluble coffee, sugar, seafood, cacao beans, sesame seed, and lead and zinc ores increased appreciably while small gains were noted for lumber and silver. 1/ These commodities, individually and collectively, were not expected to attain major importance in U.S. trade with Central America during 1960-70. The possibilities for limited increases in such trade during this period appeared to be confined to a few items, such as shrimps, lumber, beef, and soluble coffee. 2/ The possibilities for increasing the production of these commodities would be enhanced by the coordination of pertinent public policies and private investments on a regional basis.

The principal effects of the Central American economic integration program on the member countries are expected by its proponents to be the stimulation of new manufacturing industries and of increased trade within the common market. Adoption of a common external tariff, elimination of trade barriers between member countries, establishment of new industries, and a variety of other measures designed to promote a rise in income, employment, and investment levels generally together are to ensure a greater degree of intraregional interdependence than in the past. As the development of existing and new products

1/ Cotton has become an important export from Central America, but its principal market is Japan, virtually none coming to the United States.

2/ A good brief analysis of the U.S. market for these residual products is contained in David Pollack's article, "Central America's Post-War Exports to the United States" appearing in UN, ECLA, Economic Bulletin for Latin America, Vol. V., No. 2, October 1960, pp. 36-49.

TABLE XXXIV.

United States: Imports of "all othe." items from Central America,
in selected postwar years

(Value in millions of dollars; value of imports is foreign value)

Item	1946	1950	1954	1958	1960
Beef ^{1/} -----	-	-	-	0.6	9.6
Soluble coffee-----	-	-	-	6.3	7.5
Sugar-----	0.2	0.6	1.0	2.0	5.9
Seafood ^{2/} -----	0.4	1.4	0.1	1.8	5.2
Cacao beans-----	0.9	1.4	6.5	3.8	3.6
Silver-----	2.8	3.6	4.5	3.1	2.6
Sesame seed-----	0.4	0.9	2.5	2.3	2.4
Lumber-----	0.9	1.2	1.5	1.8	1.6
Chicle-----	3.0	0.8	0.9	0.3	1.2
Lead ore-----	-	0.7	0.7	1.6	1.2
Zinc ore-----	-	^{3/}	0.2	1.1	0.8
Lemongrass oil-----	0.2	0.3	0.4	0.6	0.5
Citronella oil-----	1.5	1.0	0.1	0.4	0.2
Abaca fiber-----	1.5	4.0	2.6	2.9	^{3/}
Miscellaneous-----	4.8	4.6	5.2	6.0	6.6
Total-----	16.6	20.5	26.2	34.6	48.9

^{1/} Fresh, chilled, or frozen.

^{2/} Mainly shrimp; some lobster.

^{3/} Less than \$50,000

Source: Official data of the U. S. Department of Commerce, as compiled by ECLA for years 1946-58, "Central America's Post-War Exports to the United States", op. cit., Table 13. Data for 1960 added by author.

in the Central American area is intended to be principally for the purpose of increasing consumption within the region, Central American exports to third countries may be expected to benefit only casually from the economic integration scheme. The literature on the Central American common market, especially ECLA reports, tend to emphasize the import-substitutive orientation of the integration program. It seems reasonable to conclude, therefore, that the integration program will provide few, if any, new products for export to the United States. However, some firms intending to establish plants in Central America conceivably might find it practicable and profitable to sell a portion of their output in other areas of Latin America because of cost advantages presumably obtainable in the common market from economies of scale.

In the case of certain raw materials, the integration scheme could actually bring about a decline in U.S. imports from Central America. In anticipation of the presumed advantages of a Central American economic integration, some U.S. firms have shown an interest in establishing branches or subsidiaries in that area, to produce with local materials, for the regional market, items previously exported from the United States. To some extent, therefore, local consumption by such new plants might reduce exports of Central American raw materials to the United States,

U.S. exports to Central America.--U.S. merchandise exports to Central America are determined by Central America's ability to import from this country and by the competitive position of U.S. merchandise in Central American markets. Central America's capacity to import from the United States, as measured by the value of exports and the terms of trade (Table 35), declined rather steadily between 1953 and 1960. This decline was due partly due to the deterioration of world prices for Central America's leading export commodities.

At the same time, the requirements for imports rose substantially in Central America, so that serious balance-of-payments problems developed in the various countries and their economic growth was retarded.

Commodity experts expect that the prices of major Central American exports will remain depressed through 1965, but will improve in subsequent years because of more effective international commodity arrangements, a larger world population and rising incomes, and improved conditions of production, (such as the application of new technologies, the increase in output of disease-resistant varieties of agricultural products, the development of storage and transportation facilities, and other cost-reducing improvements). It seems likely, therefore, that barring any substantial price declines in Central American imports, the area's capacity to import will not increase substantially during 1960-65, but will improve noticeably during the years 1966-70.

Some indication of the size of the Central American market for U.S. exports by 1970 may be had by projecting the growth of the region's economy and its demand for imports. The key assumptions for the various sectors projected either fall within the limit of previous experience in Central America or conform with generally held expectations. The basic assumptions are as follows:

- (1) All five countries will participate fully in the Central American common market;
- (2) The area's population in the aggregate grew at the extraordinarily high rate of 3.3 percent a year during 1950-60. ^{1/} Because of increasing urbanization, educational opportunities and incomes, the rate of population growth is expected to decline somewhat, so that a regional increment of 3 percent a year is assumed for the 10 years ending in 1970;
- (3) Alternative assumptions are made concerning the growth of real per capita product and consumption: Projection A is based on the modest

^{1/} That of Costa Rica was close to 4 percent annually.

TABLE XXXV.

Central America: Factors determining its capacity to import from
the United States, 1946-60

(Indices: 1954=100)

Year	Exports to the United States 1/		Unit value of imports from the U.S. 2/		Terms of trade with the U.S.	Capaci- ty to import from U.S.
	Value	Quantum	Unit value			
	(A)	(B)	(C)	(D)	C/D (E)	Expt (F)
1946-----	39	92	42	79	53	49
1947-----	62	116	53	93	57	66
1948-----	69	119	58	99	59	70
1949-----	72	116	62	92	67	78
1950-----	91	123	74	90	82	101
1951-----	103	121	85	101	84	102
1952-----	101	118	86	101	85	100
1953-----	105	122	86	102	84	102
1954-----	100	100	100	100	100	100
1955-----	95	103	93	101	92	95
1956-----	93	96	97	106	92	88
1957-----	99	103	96	110	87	90
1958-----	98	114	86	111	77	88
1959-----	77	115	66	113	58	67
1960 3/-----	74	115	64	115	56	64

1/ Calculated by the ECLA, "Central America's Post-War Exports to the United States," op. cit., Table 7, for 1946-58, and by the author for 1959 and 1960.

2/ Represents unit values of U.S. exports to Latin America published by the U.S. Department of Commerce in its World Trade Information Service, Statistical Reports.

3/ Estimated.

assumption of a 2 percent per capita annual rate of increase in both the gross regional product (GRP) and in consumption; Projection B is based on the minimum Alliance for Progress target of real per capita income growth of 2.5 percent annually, and the assumed increase in per capita consumption is raised to 3 percent a year. Projections A and B would require that national development plans receive adequate financial support from domestic and foreign sources, and that all the Central American countries would strive to maximize their attractiveness for investment under the integration program.

- (4) Central American exports are expected to experience a modest increase in volume and some improvement in prices after 1965; however, an increase in the outflow of investment earnings may be expected as a result of growing investment in the region. The average annual growth in exports of goods and services during 1961-70 is projected at a rate of 5 percent annually;
- (5) A marginal capital output ratio of 2.5 to 1 and a capital consumption allowance of $33 \frac{1}{3}$ percent of gross investment (typical of Latin America as a whole) are assumed, giving a gross capital-output ratio of 3.75 to 1; and
- (6) All values are in terms of 1960 dollars, thereby eliminating the necessity for considering variations in price during the period.

The projections are shown in Table 36. Under Projection A, a moderate growth of 5 percent a year in Central America's gross regional product (GRP) would increase its total merchandise imports from \$512 million in 1960 to about \$860 million in 1970; under Projection B, with an annual growth of 5.5 percent in GRP, merchandise imports would reach an annual rate of \$1,057 million by 1970. 1/

The United States supplied only half of the total value of Central American imports in 1960. However, with the adoption of appropriate sales campaigns and credit policies, U.S. suppliers might again obtain between 55 and 65 percent of the total market--a level much below the average of 73 percent supplied during the early postwar years (1946-51). To the extent that Western Europe's production becomes more competitive by virtue of scale economies deriving from the expansion of the European Economic Community (Common Market), the task of

1/ From the projected imports of goods and services, a deduction of 13 percent is made for services to arrive at the value of merchandise imports.

TABLE XXXVI.

Central America: Projected increase in real gross regional product
and demand for imports, 1960-1970

(Dollar values in 1960 prices)					
Items	Projection A 1/			Projection B 2/	
	Actual: 1960	1970	Annual rate of increase	1970	Annual rate of increase
Population (in thousands)---	10,970	14,743	3.0	14,743	3.0
Per capita product (in dollars)-----	208	252	2.0	264	2.5
Total Gross Regional Pro- duct (GRP) (In millions of dollars)-----	2,279	3,715	5.0	3,893	5.5
Imports of goods and ser- vices (in millions of dollars)-----	580	986	5.5	1,215	7.7
a) Goods-----	512	858	-	1,057	-
Exports of goods and ser- vices (in millions of dollars)-----	512	835	5.0	835	5.0
Net foreign balance (inflow (+); outflow (-))-----	+68	+151	-	+380	-
Total available resources---	2,347	3,866	5.1	4,273	6.2
Consumption (in millions of dollars)-----	3/ 2,058	3,326	5.0	3,657	6.0
Ratio to the GRP (percent)-----	90	90	-	94	-
Gross investment (in millions of dollars)---	3/ 303	4/ 540	5.9	4/ 616	7.3
Ratio to the GRP (percent)-----	13	15	-	16	-
Net investment (in millions of dollars)---	203	4/ 360	5.9	4/ 408	7.2
Ratio to the GRP (percent)-----	9	10	-	10	-

1/ Projection A assumes an increase in GRP of 2% per capita annually, and a similar increase in per capita consumption.

2/ Projection B assumes an increase in GRP of 2.5% per capita annually (the minimum Alliance for Progress target), and a 3% per capita annual increase in consumption.

3/ Partly estimated by A.I.D.

4/ Annual average for 10-year period.

U.S. exporters will be made more difficult, but not substantially so, inasmuch as there appeared to be little external export bias in West Europe's productivity gains by the end of 1960.

With respect to the competitive position of U.S. products in the Central American market, a U.S. Department of Commerce export promotion team concluded that closer attention to the needs of this market and more aggressive competitive practices are required to even maintain the U.S. share; still greater efforts are required to attain a significant increase in U.S. exports to this area. ^{1/} The Department of Commerce team reported that formidable price competition was being offered by European and Japanese suppliers in such lines as iron and steel products, electrical equipment, vehicles, some agricultural equipment, industrial machinery, chemicals, and the like. In addition, foreign competitors offered far more liberal payment terms, particularly in sales of producer goods, "where 3-to-5 year terms at moderate rates of interest are not uncommon." Even in non-capital-goods lines, credit terms from Europe and Japan were said to have been more liberal than most offers from the United States.

It appears from the foregoing situation that in the immediate future the share of U.S. exports to Central America will be affected by the U.S. ability to compete with other foreign suppliers rather than by any import substitution generated within the Central American common market. The principal longer-run effect of the Central American common market probably will be to alter the composition of Central American imports in the direction of higher-valued products, as discussed below.

Exports of U.S. domestic merchandise to each of the Central American

^{1/} William A. Rafferty and Robert L. Pritchard, "Mexican-Central American Market Needs Close, Aggressive Attention", in U.S. Dept. of Commerce, Foreign Commerce Weekly, June 27, 1960

countries in 1960, by commodity group and by country, are shown in Table 37. This list may be taken as the pre-integration composition of U.S. sales to these countries, since little had been done by 1960 to establish new industrial plants under the integration program as such. Considering the basically agricultural character of the economies of the five republics, the difficulties of substituting local manufactures for the imported products shown in Table 37, would increase with the difficulty of their production processes. For most products in Groups 7,8, and 9, it probably will not be possible to develop economically productive units in Central America for some time, if at all, although regional assembling plants might be feasible for certain items. On the other hand, in Groups 00 through 6, there appears to be substantial room for import substitution in Central America.

The development of import-substitutive industries in the Central American region probably will be accelerated, so that perhaps 15 to 25 percent of the 1960 value (between \$77 and \$128 million) of Central America's imports might be supplied from domestic production by 1970 (in terms of 1960 prices) if the assumptions for Table 36 as verified.

TABLE XXXVII.

United States: Exports of domestic merchandise to Central America,
by commodity group and by country, 1955 and 1960 1/

(In thousands of dollars)

Group	Commodity and country	1955	1960
00	Animals and products, edible,		
	Guatemala-----	3,337	1,674
	El Salvador-----	1,807	1,214
	Honduras-----	817	616
	Nicaragua-----	890	526
	Costa Rica-----	2,076	1,346
	Total-----	8,927	5,376
0	Animals and products, inedible:		
	Guatemala-----	664	1,339
	El Salvador-----	948	1,196
	Honduras-----	1,270	851
	Nicaragua-----	431	358
	Costa Rica-----	363	286
	Total-----	3,676	4,030
1	Vegetable products, edible:		
	Guatemala-----	7,368	5,356
	El Salvador-----	6,307	3,770
	Honduras-----	3,630	2,771
	Nicaragua-----	2,695	1,866
	Costa Rica-----	4,455	3,834
	Total-----	24,455	17,597
2	Vegetable products, inedible:		
	Guatemala-----	1,523	1,939
	El Salvador-----	1,107	2,099
	Honduras-----	820	1,364
	Nicaragua-----	1,301	1,989
	Costa Rica-----	866	1,809
	Total-----	5,617	9,200
3	Textile fibers and manufactures:		
	Guatemala-----	7,485	5,747
	El Salvador-----	5,468	3,884
	Honduras-----	4,505	3,851
	Nicaragua-----	4,641	2,782
	Costa Rica-----	5,380	4,714
	Total-----	27,479	20,978

TABLE XXXVII. (Continued)

(In thousands of dollars)

Group	Commodity and country	1955	1960
4	Wood and paper		
	Guatemala-----	1,445	2,396
	El Salvador-----	1,381	1,578
	Honduras-----	1,012	2,467
	Nicaragua-----	946	1,092
	Costa Rica-----	1,098	2,101
	Total-----	5,882	9,634
5	Nonmetallic minerals:		
	Guatemala-----	2,206	3,388
	El Salvador-----	2,585	1,540
	Honduras-----	1,469	1,397
	Nicaragua-----	1,110	1,637
	Costa Rica-----	1,790	2,211
	Total-----	9,160	10,173
6	Metals and metal manufactures:		
	Guatemala-----	5,034	5,304
	El Salvador-----	3,135	3,172
	Honduras-----	3,052	2,649
	Nicaragua-----	2,829	2,500
	Costa Rica-----	2,881	2,899
	Total-----	16,931	16,524
7	Machinery and vehicles:		
	Guatemala-----	15,963	20,666
	El Salvador-----	13,238	13,513
	Honduras-----	7,891	9,490
	Nicaragua-----	13,371	8,596
	Costa Rica-----	13,574	13,506
	Total-----	64,037	65,771
8	Chemicals and related products:		
	Guatemala-----	6,772	9,063
	El Salvador-----	6,717	6,543
	Honduras-----	5,898	5,658
	Nicaragua-----	7,394	5,730
	Costa Rica-----	7,296	7,510
	Total-----	34,077	34,504

TABLE XXXVII. (Continued)

(In thousands of dollars)

Group	Commodity and country	1955	1960
9	Miscellaneous:		
	Guatemala-----	4,600	5,488
	El Salvador-----	4,093	3,730
	Honduras-----	3,426	3,230
	Nicaragua-----	2,992	2,438
	Costa Rica-----	3,341	3,862
	Total-----	18,452	18,570
	Total exports to Central America:		
	Guatemala-----	56,397	62,360
	El Salvador-----	46,787	42,348
	Honduras-----	33,790	34,346
	Nicaragua-----	38,601	29,513
	Costa Rica-----	43,120	43,897
	Grand total <u>2/</u> -----	218,695	212,354

1/ Exclusive of Special Category Commodities.

2/ Because of rounding, figures do not add to the total shown.

Source: Compiled from official statistics of the U. S. Department of Commerce.

3. U.S. capital investment in Central America.--The United States has been the principal source of private foreign investment in Central America. ¹ Nevertheless, U.S. direct investments in that area have represented a small fraction of total such investments in Latin America (Table 38). The value of U.S. direct investments in the five Central American countries increased from \$206 million in 1929 to a peak of \$352 million in 1959, a growth rate of less than two percent a year. In 1960, U.S. investments fell to \$337 million, representing a decline of four percent. While the distribution of U.S. direct investments by industrial sector has not been reported for all the countries in the area, available data for Guatemala and Honduras indicated that the principal fields of U.S. direct investment in Central America were, in the order of their importance, public utilities, agriculture, and petroleum refining and distribution. ^{2/}

^{1/} Other sources, however, were of some significance, mainly as a result of investments made in earlier periods. For example, important railroads in El Salvador and Costa Rica were British-owned, and British investments in banking existed in all five countries. The principal electric power company in El Salvador was owned by Canadian interests and there was Japanese participation in a textile plant. German investments in Central America (mainly in coffee farms and a railroad in Guatemala) had been expropriated during World War II.

^{2/} Guatemala and Honduras accounted for 69 percent of total U.S. direct investment in Central America in 1960.

TABLE XXXVIII.

Central America: Value of U.S. direct investments
by country, in selected years, 1929-1960

(In millions of dollars)							
Country	1929	1936	1943	1950	1957	1959	1960
Costa Rica-----	22	13	30	60	62	61	57
El Salvador-----	29	17	15	18	30	31	31
Guatemala-----	70	50	87	106	106	132	131
Honduras-----	72	36	37	62	108	110	100
Nicaragua-----	13	5	4	9	16	18	18
(a) Total, Central America-----	206	121	173	255	322	352	337
(b) Total, Latin America-----	3,462	2,803	2,721	4,445	7,434	8,098	8,365
(c) Ratio of (a) to (b)-----	5.9	4.3	6.4	5.7	4.3	4.3	4.0

Sources: U.S. Department of Commerce, Office of Business Economics, U. S. Business Investments in Foreign Countries, 1960, p. 92; Survey of Current Business, August 1961, pp. 22-23.

Although U.S. direct investments in Central America were small in relation to total U.S. foreign investments, they nevertheless made substantial contributions to the economies of the five countries. The U.S.-owned fruit companies were the largest investors in the area as a whole, their preponderance being suggested by the relative small amounts of U.S. direct investment found in El Salvador and Nicaragua, where bananas were of relatively minor importance. 1

The development of the banana industry since the turn of the century was accompanied by important fruit company investments in services necessary to their operations, such as railroads, electric power, facilities, housing, schools, and other social services. In addition, the fruit companies branched out into other agricultural activities, including the cultivation of abaca, cacao, and the African oil palm. They also established or participated in a variety of other activities, such as brewing, banking, and vegetable oil extraction (particularly in Honduras).

Other U.S. direct investments in these countries have been principally in public services, such as railroads and electric power, and to a lesser extent, in telecommunications, lumbering, mining, (gold, silver, lead, zinc), petroleum distribution, banking, and insurance. Explorations for petroleum are going forward in Costa Rica, Guatemala, and Honduras. Additional opportunities for investment in Central America were indicated in the reports of ICA-sponsored missions which visited certain countries in the area during 1961 to identify their industrial possibilities.

Since the conclusion of the 1960 economic integration treaties, substantial interest has been shown by U.S. firms in investing in Central America. Action has been limited, however, by the confusion arising from the multiplicity of integration treaties, uncertainties as to how they would be applied, and which

1/ U.S. Department of Commerce, Investment in Central America, 1956, p.5.

countries would participate in the program.

When the uniform Central American tariff has been adopted, and when the administration of the common market has become more firmly established, it would seem reasonable to expect that increased investment would take place in the area. The development of adequate national development plans, and their coordination at the regional level, could provide a much improved environment as well as guidance for such investment.

Although the integration scheme admittedly relies heavily on private investment for its success, its underlying premise is the mobility of capital within the region and its formation principally from domestic sources, in amounts adequate to create new industries and expand existing ones. While the Central American governments are fully aware of the shortages of management personnel and skilled labor in these countries, they apparently prefer to obtain necessary technical assistance from abroad under a partnership or hire arrangement. This attitude was expressed in Article XVI of the original draft of the Integrated Industries Convention, which stipulated that the social capital of "integrated industries" should be preferably of Central American origin and that the collective capital originating in the five countries should represent at least 50 percent of the social capital of each such plant. ^{1/} Although this provision was omitted from the Convention signed, the "integrated industries" that were recommended at Managua in late 1961 were to be established with at least 51 percent of their capital of Central American ownership.

Official grants and net loans by the U.S. Government to Central American countries increased from \$22 million in 1955 to \$37 million in 1957, and declined in subsequent years, reaching nearly \$29 million in 1959 (TABLE 39). The principal

^{1/} UN, ECLA, Informe del Comité de Cooperación Económica del Istmo Centroamericano, 30 de Enero de 1956 a 24 de Febrero de 1957, p. 31.

TABLE XXXIX.

Central America: Grants and net loans received from the U.S. Government,
by country, 1955-59

(In millions of dollars)

Country	1955	1956	1957	1958	1959
Costa Rica:					
Grants-----	2.5	2.7	6.5	8.6	5.9
Loans (net)-----	3.6	0.9	2.1	1.2	1.7
Total-----	6.1	3.6	8.6	9.8	7.6
El Salvador:					
Grants-----	1.2	1.2	1.4	1.0	1.0
Loans (net)-----	-0.2	-0.2	0.1	-	-
Total-----	1.0	1.0	1.5	1.0	1.0
Guatemala:					
Grants-----	10.8	17.0	21.3	12.1	10.7
Loans (net)-----	0.5	1.1	0.1	-0.3	-0.6
Total-----	11.3	18.1	21.4	11.8	10.1
Honduras:					
Grants-----	1.8	1.6	2.3	2.4	3.4
Loans (net)-----	-	-	0.5	2.3	2.2
Total-----	1.8	1.6	2.8	4.7	5.6
Nicaragua:					
Grants-----	2.0	2.1	3.0	4.2	3.5
Loans (net)-----	-0.1	-	0.1	0.3	1.0
Total-----	1.9	2.1	2.9	4.5	4.5
Total Central America:					
Grants-----	18.3	24.6	34.5	28.3	24.5
Loans (net)-----	3.8	1.8	2.7	3.5	4.3
Total-----	22.1	26.4	37.2	31.8	28.8

Source: Agency for International Development, Economic Data Book for the
countries of Latin America.

recipients were Guatemala and Costa Rica. Grants were by far the major component of U.S. Government aid to the Central American republics.

A major factor in determining the level of future U.S. aid Central American countries will be the amount of "self-help" that they undertake and accomplish. Thus, one of the basic principles governing the use of U.S. aid funds, given in President John F. Kennedy's Special Message on Foreign Aid of March 22, 1961, is that special attention will be given to those nations most willing and able to mobilize their own resources, make necessary social and economic reforms, engage in long-range planning, and make other efforts necessary if they are to reach the stage of self-sustaining growth.

Since the Central American governments are interested in obtaining external assistance for both capital development and social improvement projects, they have a substantial incentive to develop sound national and regional plans. Under the Alliance for Progress, institutions are being created to formulate and administer development programs at the national and regional levels. 1,

1/ All five Central American countries recently have established or reorganized planning organizations within their governmental structures. In addition, planning groups have been set up in CABEI and in the Permanent Secretariat of the General Treaty, to assist and coordinate national planning efforts.

Appendix Table 1.

Central America: Commercial treaties in force
by country, as of December 31, 1961

In addition to their agreements with the United States noted in Chapter IV, the respective Central American states are believed to have in force the following commercial agreements:

<u>Country</u>	<u>Partner</u>	<u>Date of Signature</u>
Costa Rica	United Kingdom	November 27, 1849
		March 8 and 12, 1933
	Norway	November 19, 1938
	Mexico	February 4, 1946
	Canada	November 17-18, 1950
	Norway	October 15, 1952
	Italy	February 20, 1953
	France	April 30, 1953
	Uruguay	January 31, 1956
	Denmark	September 26, 1956
El Salvador	Venezuela	August 27, 1883
	Great Britain and Northern Ireland	August 8, 1931
	Mexico	October 2, 1935
	Sweden	June 23, 1936
	Canada	November, 1937
	Norway	November 21, 1938
	Federal Republic of Germany	October 31, 1952 (Protocol, October 31, 1952)
	Spain	December 2, 1952
	France	March 23, 1953
	Italy	March 30, 1953 (Protocol, December 21, 1955)
	Switzerland	February 11, 1954
	Netherlands	March 13, 1956
	Denmark	July 9, 1958
	Austria	March 23, 1960

Appendix Table 1. (Cont'd)

<u>Country</u>	<u>Partner</u>	<u>Date of Signature</u>
Guatemala	Belgium-Luxembourg	November 7, 1924
	Netherlands	May 12, 1927
	Irish Free State	February 8 and April 10, 1930
	Sweden	July 11, 1936
	Canada	September 28, 1937
	Norway	December 20, 1938
	Denmark	March 4, 1948
	Italy	July 12 and 18, 1952
	Switzerland	April 1, 1955
	France	October 17, 1955
	Spain	December 31, 1955
	Austria	December 31, 1960
Honduras	France	February 22, 1856
	Belgium	March 25, 1909
	Belgium-Luxembourg Union	March 25 and April 30, 1909
	France	August 15, 1955
	Canada	July 11, 1956
	Argentina	June 3, 1958
	Benelux	January 30, 1959
Nicaragua	Spain	July 25, 1850
	Great Britain	July 28, 1905
	France	May 4, 1938
	Canada	December 19, 1946
	Italy	November 12, 1952

APPENDICES*

- I. Multilateral Treaty on Central American Free Trade and Economic Integration
- II. Convention on the System of Central American Integrated Industries
- III. Central American Agreement on the Equalization of Import Duties and Charges
- IV. (First) Protocol to the Central American Agreement on the Equalization of Import Duties and Charges
- V. Joint Declaration of the Presents of Guatemala, Honduras, and El Salvador on a Tripartite Treaty of Economic Association
- VI. Treaty of Economic Association between the Republics of Honduras, Guatemala, and El Salvador
- VII. General Treaty on Central American Economic Integration
- VIII. (Second) Protocol to the Central American Agreement on the Equalization of Import Duties and Charges.
- IX. Agreement Establishing the Central American Bank for Economic Integration
- X. The Panama Treaty
- XI. Treaty of Preferential Interchange and Free Trade between the Republics of Panama, Nicaragua, and Costa Rica

* The commodity lists mentioned in the various treaties are not included here.

Note.--ECLA has translated into English all of the economic integration treaties except the Treaty of Economic Association Between The Republics of Guatemala, El Salvador and Honduras. This treaty was translated by the U.S. Department of State.

APPENDIX I

1. MULTILATERAL TREATY ON CENTRAL AMERICAN FREE TRADE AND ECONOMIC INTEGRATION

The Governments of the Republic of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica, desirous of intensifying and strengthening their common bonds of origin and brotherhood, and with a view to effecting the progressive integration of their economies ensuring the development of their markets, promoting the production and exchange of goods and services and raising the standards of living and employment of their respective populations, thereby contributing to the re-establishment of the economic unity of Central America, have agreed to conclude the present Multilateral Treaty on Free Trade and Central American Economic Integration, which shall be progressively implemented, and for that purpose have appointed as their respective plenipotentiaries:

- H.E. The President of the Republic of Guatemala: Jose Guirola Leal, Minister of Economic Affairs;
- H.E. The President of the Republic of El Salvador: Alfonso Rochac, Minister of Economic Affairs;
- H.E. The President of the Council of Ministers, exercising the powers of the Executive of the Republic of Honduras: Fernando Villar, Minister of Economic Affairs and Finance;
- H.E. The President of the Republic of Nicaragua: Enrique Delgado, Minister of Economic Affairs;
- H.E. The President of the Republic of Costa Rica: Wilburg Jimenez Castro, Vice-Minister of Economic Affairs and Finance;

who, having exchanged their respective full powers, found in good and due form, have agreed as follows:

Chapter I

TRADE REGIME

Article I

With a view to creating a customs union between their respective territories as soon as conditions are favourable, the Contracting States hereby agree to establish a free-trade regime, which they shall endeavour to perfect within a period of ten years from the date on which the present period of ten years from the date on which the present Treaty enters into force. To that end, they resolve to abolish as between their territories the customs duties, charges and conditions hereinafter mentioned, in respect of the commodities specified in the appended schedule constituting annex A to this Treaty.

Consequently, the natural products of the Contracting States and the articles manufactured in their territories, provided that they are included in the aforesaid schedule, shall be exempt from import and export duties as well as taxes,

dues and charges levied on imports or exports or on the occasion of importation or exportation whether they be of a national, municipal or any other nature and whatever their purpose.

The exemptions stipulated in this article shall not include charges for lighterage, wharfage, warehousing or handling of goods or any other charges which may legitimately be levied for port, warehouse or transport services; nor shall they include exchange differentials resulting from the existence of two or more rates of exchange or from other exchange regulations in any of the Contracting States.

When a commodity or article included in the annexed schedule is subject to internal taxes, charges or duties of any kind levied on production, sale, distribution or consumption in any of the Contracting States, the State concerned may levy an equivalent amount on similar goods imported from another Contracting State.

Article II

Goods originating in the territory of any of the Contracting States and included in the schedule appended to this Treaty shall be accorded in all the Contracting States the same treatment as domestic goods and shall be exempt from any quota or other restrictions except for such measures as may be legally applicable in the territories of the Contracting States for reasons of public health, security or police control.

Article III

Goods originating in any of the Contracting States and which are not included in the annexed schedule shall be accorded unconditional and unlimited most-favoured-nation treatment in the territory of the other Contracting States.

The above treatment shall not, however, be extended to concessions granted pursuant to other free trade treaties concluded between Central American States.

Article IV

The Contracting States, convinced of the necessity of equalizing their customs tariffs and firmly determined to establish a customs union between their territories, undertake, subject to the opinion of the Central American Trade Commission referred to hereinbelow, to equalize the duties and other charges imposed by them individually on imports of goods listed in the schedule appended hereto, or which may be subsequently included therein, and on their principal raw materials and the necessary containers.

For the purposes indicated in the preceding paragraph, the Commission shall prepare and submit to the Contracting Governments, within a period, not exceeding one year, the appropriate draft contractual agreement or agreements for the equalization of import duties.

Article V

The Governments of the Contracting States shall endeavour to refrain from obtaining or granting customs exemptions on imports from outside Central America of articles produced in any of the Contracting States and listed in the schedule appended hereto.

The Contracting States shall further endeavour to equalize the advantages granted by them to industries producing any of the articles listed in the schedule, to the extent that such advantages might, in the opinion of the Central American Trade Commission, entail unfair competition in the said goods.

Article VI

Subject to the opinion of the Central American Trade Commission, the schedule appended to his Treaty may be extended by mutual agreement between the Contracting States, by means of additional protocols and in accordance with their respective constitutional procedures.

Article VII

In order that they may enjoy the advantages stipulated in this Treaty, the goods listed in the schedule appended hereto shall be entered on a customs form, signed by the exporter and containing a declaration of origin. That form shall be produced for inspection to the customs officers of the countries of origin and destination, in conformity with annex B of this Treaty.

Article VIII

The Central Banks of the Contracting States shall cooperate closely with a view to preventing any currency speculation that might affect the rates of exchange and maintaining the convertibility of the currencies of the respective countries on a basis which, in normal conditions, shall guarantee the freedom, uniformity and stability of exchange.

Any of the Contracting States which establishes quota restrictions on international currency transfers shall adopt the measures necessary to ensure that such restrictions do not discriminate against the other States.

In case of serious balance of payments difficulties which affect or are apt to affect the monetary and payments relations between the Contracting States, the Central American Trade Commission, acting of its own motion or the request of one of the Governments, shall immediately study the problem for the purpose of recommending to the Contracting Governments a satisfactory solution compatible with the multilateral free trade regime.

Chapter II

DISCRIMINATORY PRACTICES

Article IX

Subject to the provisions of the bilateral Central American treaties in force and to any provisions that may be agreed upon in future treaties between Central American States, the Contracting States agree to the following provisions with a view to ensuring a broad application of the principle of non-discrimination in their trading relations:

a) Any goods not included in the schedule appended to this Treaty and subject to quota restrictions imposed by a Contracting State shall, upon importation from the territory of another Contracting State or upon exportation to such a territory, be accorded treatment no less favourable than that accorded to similar goods of any other origin or destination;

b) No Contracting State shall establish or maintain any internal duty, tax or other charge on any goods, whether or not included in the appended schedule, originating in the territory of another Contracting State, nor shall it enact or impose any regulations regarding the distribution or retailing of such goods, when such charge or regulations place or tend to place the said goods in an unfavourable position by comparison with similar goods of domestic origin or imported from any other country;

c) Should a Contracting State establish or maintain a place of business or an agency or grant special privileges to a specific establishment to attend exclusively or principally, permanently or occasionally to the production, exportation, importation, sale or distribution of any goods, such State shall grant to the traders of the other Contracting States equitable treatment with respect to purchases or sales which the said place of business, agency or establishment effects abroad. The institution concerned shall act in accordance with private business practice and shall afford the traders of the other countries reasonable opportunity to compete for participation in such purchases or sales.

Chapter III

INTERNATIONAL TRANSIT

Article X

Each of the Contracting States shall ensure full freedom of transit through its territory for goods proceeding to or from another Contracting State.

Such transit shall not be subject to any deduction, discrimination or quota restriction. In the event to any traffic congestion or any form of force, each Contracting State shall handle consignments intended for its own population and those in transit to the other States on an equitable basis.

Transit operations shall be carried out by the routes prescribed by law for that purpose and subject to the customs and transit laws and regulations applicable in the territory of transit.

Goods in transit shall be exempt from all duties, taxes and other fiscal charges of a municipal or other character imposed for any purpose whatsoever, except charges generally applicable for services rendered or for reasons of security, public health or police control.

Chapter IV

EXPORT SUBSIDIES AND UNFAIR BUSINESS PRACTICES

Article XI

No Contracting State shall grant any direct or indirect subsidy towards the export of any goods intended for the territory of the other States, or establish or maintain any system resulting in the sale of such goods for export to any other Contracting State at a price lower than the comparable price charged for similar goods on the domestic market, due allowance being made for differences in the conditions of sale or in taxation and for any other factors affecting price comparability.

Any measure which involves fixing of prices or price discrimination in a Contracting State shall be deemed to constitute an indirect export subsidy if it involves the establishment of a sales price for specific goods in the other Contracting States which is lower than that resulting from normal competition in the market of the exporting country.

However, tax exemptions or refunds of a general nature granted by a Contracting State with a view to encouraging the production in its territory of specified goods, shall not be deemed to constitute an export subsidy.

Similarly, any exemption from internal taxes chargeable in the exporting State on the production, sales or consumption of goods exported to the territory of another State shall not be deemed to constitute an export subsidy. Furthermore, the differences resulting from the sale of foreign currency on the free market at a rate of exchange higher than the official rate shall not normally be deemed to be an export subsidy; in case of doubt, however, on the part of one of the Contracting States, the matter shall be submitted to the Central American Trade Commission for its consideration and opinion.

Article XII

As a means of precluding a practice which would be inconsistent with the purposes of this Treaty, each Contracting State shall employ all the legal means at its disposal to prevent the exportation of goods from its territory to the territories of other States at a price lower than their normal value, if such exportation would prejudice or jeopardize the production of the other States or retard the establishment of a domestic or a Central American industry.

Goods shall be considered to be exported at a price lower than their normal value if their price on export is less than

a) the comparable price, in ordinary trading conditions, of similar goods destined for domestic consumption in the exporting country; or

- b) the highest comparable price of similar goods on their export to any third country in ordinary trading conditions; or
- c) the cost of production of the goods in the country of origin, plus a reasonable addition for sales cost and profit.

Due allowance shall be made in each case for differences in conditions of sale or in taxation and for any other factors affecting price comparability.

Article XIII

If, notwithstanding the provisions of this chapter, an unfair business practice is discovered, the State affected shall take steps with the competent authorities of the other State to ensure the elimination of that practice and, if necessary, may adopt protective measures, provided that the matter is then referred to the Central American Trade Commission for study and appropriate recommendations.

Chapter V

TRANSPORT AND COMMUNICATIONS

Article XIV

The Contracting States shall endeavour to construct and maintain lines of communication to facilitate and increase traffic between their territories.

They shall also endeavour to standardize the transport rates between their territories as well as the relevant laws and regulations.

Article XV

Commercial and private vessels and aircraft of any of the Contracting States shall be accorded in ports and airports of the other States open to international traffic the same treatment as is extended to national vessels and aircraft. The same treatment shall be extended to passengers, crews, and freight of the other Contracting States.

Land vehicles registered in one of the Contracting States shall enjoy the same treatment in the territory of the other States, for the duration of their temporary stay there, as is accorded to vehicles registered in the State of visit.

Motor transport undertakings of any Contracting State engaged in providing inter-Central American services for passengers and freight shall enjoy in the territory of the other States the same treatment as domestic undertakings.

Private vehicles and vehicles which are not used for the regular inter-Central American transport of persons and goods shall be admitted to the territory of the other Contracting States under a temporary duty-free importation system and shall be subject to the relevant legislative provisions.

Vessels of any Contracting State plying between the ports of Central America shall be subject, in the ports of the other States, to the same coastal shipping regime as domestic vessels.

The provisions of this article shall not affect the duty to comply with the formalities of registration and control prescribed in each country in respect of the entry, stay or exit of vessels, aircraft or vehicles for reasons of public health, security or police control, public policy or fiscal necessity.

Article XVI

The Contracting States shall endeavour to improve the telecommunications systems between their respective territories and shall direct their combined efforts towards the attainment of that objective.

Chapter VI

INVESTMENTS

Article XVII

Each of the Contracting States, acting within the framework of its constitution, shall grant national treatment to capital investments made by nationals of the other States, and shall recognize the right of such persons to organize or manage production, commercial or financial undertakings, or to participate therein, on the same footing as its own nationals; each Contracting State shall also extend equitable and nondiscriminatory treatment to applications for transfers of funds accruing from capital investments made by nationals of the other States.

Chapter VII

CENTRAL AMERICAN TRADE COMMISSION

Article XVIII

The Contracting States agree to establish a Central American Trade Commission to which each of the Contracting States shall appoint a representative; the Commission shall meet as frequently as its work may require or at the request of any of the Contracting States.

The Commission or any of its members may travel freely in the Contracting States to study matters within the Commission's competence in the field, and the authorities of the Contracting States shall provide them with whatever information and facilities may be necessary for the proper discharge of their functions.

The Commission shall have a permanent secretariat, which shall be under the responsibility of the General Secretariat of the Organization of Central American States.

The Commission shall adopt its rules of procedure unanimously.

Article XIX

The functions of the Central American Trade Commission shall be as follows:

- a) To propose to the Contracting States measures conducive to the development and improvement of the Central American free-trade zone referred to in the Treaty as well as measures designed to attain the objectives of Central American economic integration, and to prepare a specific plan for such purposes including a customs union and the establishment of a Central American common market;
- b) At the request of one or several Governments to study questions and matters relating to the development of inter-Central American trade, in particular those connected with the application of this Treaty, and to propose measures for the solution of any problem which may arise;
- c) To study production and trade in the Contracting States, to recommend additions to the appended schedule and to take appropriate measures to ensure;
 - i) the standardization of customs tariffs and regulations;
 - ii) the establishment of a single fiscal system for articles under State monopoly and for goods subject to production, sales and consumption taxes;
 - iii) the conclusion of agreements designed to avoid double taxation in the matter of direct taxes;
 - iv) the improvement of inter-Central American transport through the conclusion of appropriate agreements;
 - v) the application of the decimal metric system of weights and measures.
- d) To collect and analyse statistics and other data relating to trade between the Contracting States.

In fulfilling these functions, the Commission shall avail itself of the reports and studies made by other Central American and international organizations and agencies.

The Central American Trade Commission shall give priority attention to the problem of equalizing customs tariffs and shall submit to the Economic Council of the Organization of Central American States, for consideration at its ordinary sessions, draft contractual agreements covering the greatest possible number of products.

Article XX

The competent authorities of the Contracting States shall collect, classify and publish the statistical data relating to import, export and transit operations carried out under the terms of this Treaty, in accordance with the rules laid down, by mutual agreement, by the Central American Trade Commission and the statistical organizations of the Contracting States.

Chapter VIII

INDUSTRIAL INTEGRATION

Article XXI

With a view to promoting industrial development consistent with the purpose of this Treaty, the Contracting States shall adopt, by mutual agreement, measures designed to further the establishment or expansion of regional industries directed towards a Central American common market and of particular interest to the economic integration of Central America.

Chapter IX

GENERAL PROVISIONS

Article XXII

The Contracting States shall adopt, as a basis for their customs tariffs and statistics, the Uniform Central American Customs Nomenclature (Nomenclatura Arancelaria Uniforme Centroamericana (NAUCA) and the Uniform Central American Nomenclature for Exports.

Article XXIII

The nationals of any Contracting State shall enjoy in the territory of all other Contracting States national treatment in commercial and civil matters, in accordance with the internal legislation of each State

Article XXIV

Considering that this Treaty is specifically Central American in character and is designed to lay the foundations for a customs union of the Contracting States and for the progressive integration of their economies, the Contracting States agree that before signing or ratifying any multilateral agreements relating to commodities, trade or customs concessions, and before acceding to any international organization established under those agreements or negotiating any arrangements within the framework of such an organization, they shall consult each other with a view to agreeing, if possible, on a common and united policy.

The Contracting States shall also endeavour to adopt a common position at inter-American or world economic conferences or meetings.

The Contracting States agree to maintain the "Central American exception clause" in any trade agreements they may conclude on the basis of most-favoured-nation treatment with any countries other than the Contracting States.

The Contracting States declare that, in concluding this Treaty, they are prompted by the desire to establish closer mutual links, as States of Central America governed by the special principles of a Central American public law.

To that end, they agree that if any of the trade agreements they may conclude with other countries or their participation in other international arrangements should constitute an obstacle to this Treaty, particularly as a result of the provisions embodied in the other treaties permitting other countries to claim no less favourable treatment, they shall renegotiate or, as the case may be, denounce them at the earliest opportunity with a view to avoiding the difficulties or prejudice which might ensue for the Contracting States as a result of claims of that nature.

The Contracting States also undertake not to conclude any new agreements with other countries which are contrary to the spirit and purposes of this Treaty and, in particular to the provisions of this article.

Article XXV

The Contracting States agree to settle amicably, in the spirit of this Treaty, and through the Central American Trade Commission, any differences which may arise in the interpretation or application of any of its provisions. If agreement cannot be reached, they shall submit the matter to arbitration. For the purpose of constituting the arbitral tribunal, each Contracting State shall propose to the Secretariat of the Organization of Central American States the names of three judges from its Supreme Court of Justice. From the complete list of candidates the Secretary-General of the Organization of Central American States and the Government representatives in the Organization shall select, by drawing lots a tribunal composed of five arbitrators, no two of whom may be nationals of the same State. The award of the arbitral tribunal shall require the concurring votes of not less than three members, and shall be binding on all Contracting States so far as it contains any ruling concerning the interpretation or application of the provisions of this Treaty.

Article XXVI

Any provision of this Treaty which are broader in scope than those contained in other trade treaties between Central American countries shall prevail over the latter.

With a view to promoting the consolidation and enlargement of the multilateral free trade regime, the Contracting States shall endeavour to extend free trade zones established by virtue of bilateral treaties.

Chapter X

TEMPORARY REGIMES

Article XXVII

With a view to the gradual application, whenever advisable, of the free-trade regime established by virtue of the present Treaty, the Contracting States may conclude special protocols for the adoption of temporary regimes introducing progressive tariff reductions, which shall be carried into effect by stages and shall be applicable to products not listed in annex A with the ultimate purpose of incorporating them in the said annex.

The Contracting States may also, in like manner, establish special temporary regimes for products not included in annex A which may be subject to import or export quota restrictions.

In exceptional cases and for specified products, there may also be established, by means of additional protocols between all of the Contracting States, a free trade regime applicable only to certain specified Contracting States and providing for progressive reductions in customs tariffs with the remaining country or countries, with the ultimate aim of securing the incorporation of the products concerned in annex A.

Chapter XI

FINAL PROVISIONS

Article XXVIII

This Treaty shall enter into force, in the case of the first three States to ratify it, on the date of deposit of the third instrument of ratification; and in the case of the States which ratify it subsequently, on the date of deposit of the relevant instruments of ratification.

This Treaty shall remain valid for a period of ten years from the initial date of its entry into force; it shall be tacitly renewable for successive periods of ten years.

Any Contracting State may denounce this Treaty by giving notice to that effect not later than six months before the date on which the initial or any subsequent period of validity expires. Denunciation shall take effect, for the denouncing State, as from the date of expiry of the relevant period of validity of the Treaty. The Treaty shall remain in force as between the other Contracting States so long as at least two States continue to be parties thereto.

This Treaty shall be submitted for ratification in each Contracting State in conformity with their respective constitutional or legislative procedures.

The General Secretariat of the Organization of Central American States shall act as depository of this Treaty and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States. It shall also notify the Contracting States of the deposit of the relevant instruments of ratification as well as of any denunciation which may occur within the prescribed time-limit. When the Treaty comes into force, it shall also transmit a certified copy thereof to the Secretary-General of the United Nations, for registration in conformity with Article 102 of the United Nations Charter.

IN WITNESS WHEREOF the respective plenipotentiaries have signed this Treaty.

DONE at the City of Tegucigalpa, D.C., Honduras, this 10th day of June 1958.

For the Government of Guatemala:

1. With reservation to article XXV of this Treaty , in accordance with the provisions of paragraph 3, subparagraph b) of article 149 of the Constitution of the Republic.

2. With the reservations made by Guatemala to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Jose Guirola Leal
Minister of Economic Affairs

For the Government of El Salvador:

With the reservations made by El Salvador to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Alfonso Rochac
Minister of Economic Affairs

For the Government of Honduras:

With the reservations made by Honduras to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Fernando Villar
Minister of Economic Affairs and Finance

For the Government of Nicaragua:

With the reservations made by Nicaragua to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Enrique Delgado
Minister of Economic Affairs

For the Government of Costa Rica:

With the reservations made by Costa Rica to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Wilburg Jimenez Castro
Vice-Minister of Economic Affairs and Finance

APPENDIX II

2. CONVENTION ON THE SYSTEM OF CENTRAL AMERICAN INTEGRATED INDUSTRIES

The Governments of the Republic of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica,

Having regard to the objectives of the Central American Economic Integration Programme which was undertaken through the Central American Economic Co-operation Committee and, in particular, to article XXI of the Central American Multilateral Free Trade and Integration Treaty,

Desirous of strengthening the natural and traditional bonds of brotherhood which unite their countries, and of co-operating towards the solution of their common economic problems,

Having as their basic aim the improvement of the living standards of the Central American peoples and the rational use, for that purpose, of their natural resources, and being convinced that, within the economic development programmes of the Central American Isthmus, the integration of their economies offers favourable prospects for the expansion of trade between their countries and for a more rapid industrialization process on the basis of mutual interest,

Have decided to conclude the present Agreement, which prescribes a Regime for Central American Integration Industries, and for that purpose have appointed as their respective plenipotentiaries:

H. E. the President of the Republic of Guatemala: Jose Guirola Leal, Minister of Economic Affairs;

H. E. the President of the Republic of El Salvador: Alfonso Rochac, Minister of Economic Affairs;

H. E. the President of the Council of Ministers exercising the powers of the Executive of the Republic of Honduras: Fernando Villar, Minister of Economic Affairs and Finance;

H. E. the President of the Republic of Nicaragua: Enrique Delgado, Minister of Economic Affairs; and

H. E. the President of the Republic of Costa Rica: Wilburg Jimenez Castro, Vice-Minister of Economic Affairs and Finance

who having exchanged their full powers, found in good and due form, have agreed as follows:

Article I

The Contracting States undertake to encourage and promote the establishment of new industries and the specialization and expansion of existing industries within the framework of Central American economic integration, and agree that the development of the various activities which are or may be included in such a programme shall be effected on a reciprocal and equitable basis in order that each and every Central American State may progressively derive economic advantages.

Article II

The Contracting States declare their interest in the development of industries with access to a common Central American market. These shall be designated Central American integration industries and shall be so declared jointly by the Contracting States, through the agency of the Central American Industrial Integration Commission established in conformity with article VIII of this Agreement.

The Contracting States shall regard as Central American integration industries those industries which, in the judgement of the Central American Industrial Integration Commission, comprise one or more plants which require access to the Central American market in order to operate under reasonably economic and competitive conditions even at minimum capacity.

Article III

The application of the present Regime to the Central American integration industries is subject to signature by the Contracting States, in respect of each of the said industries, of an additional protocol stipulating:

- a) the country or countries in which the industrial plants covered by this Regime are to be initially situated, the minimum capacity of the said plants and the conditions under which additional plants are to be subsequently admitted into the same or other countries;
- b) the quality standards for the products of the said industries and any other requirements that may be deemed convenient for the protection of the consumer;
- c) the regulations that may be advisable as regards the participation of Central American capital in the enterprises owning the plants;
- d) the common Central American tariffs which shall be applied to the products of Central American integration industries; and
- e) any other provisions designed to ensure the attainment of the objectives of this Agreement.

Article IV

The products of plants which form part of a Central American integration industry and which are covered by the present Regime, shall enjoy the benefits of free trade between the territories of the Contracting States.

The products of plants which form part of the same industry but which are not covered by the Regime, shall enjoy in the Contracting States successive annual reductions of ten percent in the applicable uniform Central American tariff, from the date specified in the relevant additional protocol. As from the tenth year, such products shall enjoy the full benefits of free trade.

Except as provided in the preceding paragraph and in any other provisions of this Agreement or of the additional protocols, all trade in commodities produced by the Central American integration industries shall be governed by the provisions of the Central American Multilateral Free Trade and Economic Integration Treaty.

Article V

In conformity with the provisions of article IV of the Central American Multilateral Free Trade and Economic Integration Treaty, the Central American Trade Commission shall give priority consideration to the equalization of the customs duties and other charges levied upon imports of commodities that are similar to or substitutes for the commodities produced by the Central American integration industries covered by the additional protocols to this Agreement, as well as upon imports of raw materials and of the containers necessary for their production and distribution.

Article VI

Since the Contracting States intend to grant to the Central American integration industries ample fiscal incentives, the enterprises owning industrial plants covered by the present Regime shall enjoy, in the territory of the countries where such plants are or may be established, the benefits and exemptions prescribed by the national legislation of the country concerned.

Article VII

Except in cases of emergency, the Governments of the Contracting States shall not grant customs duty exemptions or reductions below the Central American common tariff on any imports from countries outside Central America of goods which are equal or similar to or substitutes for goods manufactured in any of the Central American countries by plants of industrial integration industries, nor shall they apply to such imports preferential exchange rates equivalent to such exemptions or reductions.

The Governments and other State bodies shall also give preference in their official imports to the products of the Central American integration industries.

Article VIII

In order to ensure due application of this Agreement and of the additional protocols, the Contracting States agree to establish a Central American Industrial Integration Commission, to which each of the Contracting States shall appoint a special representative; the Commission shall meet as frequently as its work may require or at the request of any of the Contracting States.

The Commission or any of its members may travel freely in the Contracting States in order to study matters within the Commission's competence in the field, and the authorities of the Contracting States shall provide them with whatever information and facilities may be necessary for the proper discharge of their functions.

The Commission shall have a permanent secretariat which shall be under the responsibility of the General Secretariat of the Organization of Central American States.

The Commission shall adopt its rules of procedure unanimously and shall prescribe the regulations relating to the conduct of matters within its competence, in particular the regulations relating to the conditions and form in which, in each specific case, the views of private enterprise shall be heard.

Article IX

Individuals or bodies corporate desiring the incorporation of a given plant into the present Regime shall present an application to that effect to the Secretariat of the Central American Industrial Integration Commission and accompany it with the required information.

When the Secretariat has sufficient information available, it shall advise the Commission of the application. If the Commission finds that the project meets the aims of this Agreement, the application shall be referred for an opinion to the Central American Research Institute for Industry or to any other person or body that the Commission considers competent. Such opinion shall take into account the technological and economic aspects of the project and, in particular, the market prospects, and the costs incurred shall be borne by the interested parties.

The Commission shall decide on the project on the basis of the said opinion, and if it finds the project capable of being realized, shall make whatever recommendations it considers pertinent to the Governments of the Contracting States on the conclusion of the protocol covering the industry concerned and on the conditions to be stipulated.

When the project refers to a plant which forms part of an industry already covered by a protocol, the Commission may, in conformity with the terms of the relevant protocol and of this article, declare that the plant shall be admitted to the benefits of the present Regime and advise to that effect the Government of the Contracting States.

Article X

The Central American Industrial Integration Commission shall submit an annual report on its activities to the Contracting States.

The Commission shall periodically carry out studies with a view to enabling the Governments to evaluate the results of the application of the present Regime.

The Commission may propose to the Contracting States measures favourable to the development of the Central American integration industries and to the efficient functioning of their plants. The Commission may also propose to the Governments any measures necessary to resolve any problems arising from the application of this Agreement.

Article XI

The Contracting States agree to settle amicably, in the spirit of this Agreement, any differences which may arise in the interpretation or application of any of its provisions or of the additional protocols. If agreement cannot be reached, they shall submit the matter to arbitration. For the purpose of constituting the arbitral tribunal, each Contracting State shall propose to the General Secretariat of the Organization of Central American States the names of three judges from its Supreme Court of Justice. From the complete list of candidates, the Secretary-General of the Organization of Central American States and the Government representatives in the Organization shall select, by drawing lots, a tribunal composed of five arbitrators, no two of whom may be nationals of the same State. The award of the arbitral tribunal shall require the concurring votes of not less than three members and shall be binding on all the Contracting States so far as it contains any ruling concerning the interpretation or application of the provisions of this Agreement and of the additional protocols.

Article XII

This Agreement shall be submitted for ratification in each Contracting State in conformity with their respective constitutional or legislative procedures.

This Agreement shall come into force on the date of deposit of the last instrument of ratification. It shall remain in force for twenty years and shall be tacitly renewable for successive periods of ten years.

Any Contracting State may withdraw from this Agreement provided that notice of withdrawal is given not later than two years before the date on which the initial or any other subsequent period of validity expires.

If a Contracting State gives notice of withdrawal after the prescribed time limit but before a new period of validity has commenced, such notification shall be valid, but the Agreement shall remain in force for two further years after the beginning of the new period.

In the event of denunciation of this agreement, the same shall remain in force as regards its additional protocols until the expiry of the latter.

Should a Contracting State denounce this Agreement, the other Contracting States shall determine whether the Agreement shall cease to have effect between all the Contracting States or whether it shall be maintained between such Contracting States as have not denounced it.

The additional protocols to this Agreement shall be approved in conformity with the constitutional or legislative procedures of each country.

Article XIII

The General Secretariat of the Organization of Central American States shall act as depository of this Agreement and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States. It shall

also notify the Contracting States of the deposit of the relevant instruments of ratification as well as of any denunciation which may occur within the prescribed time-limit. When the Agreement comes into force it shall also transmit a certified copy thereof to the Secretary-General of the United Nations for registration in conformity with Article 102 of the United Nations Charter.

Transitional Article

In order to promote an equitable distribution of the Central American industrial integration plants, the Contracting States shall not award a second plant to any one country until all of the Central American countries have each been assigned a plant in conformity with the protocols specified in article III.

IN WITNESS WHEREOF the respective plenipotentiaries have signed this Agreement.

DONE in the city of Tegucigalpa, D. C., capital of the Republic of Honduras, on 10 June 1958.

For the Government of Guatemala:

With reservation regarding article XI of this Treaty, in accordance with the provisions of paragraph 3, sub-paragraph b) of article 149 of the Constitution of the Republic.

Jose Guirola Leal
Minister of Economic Affairs

For The Government of El Salvador:

Alfonso Rochac
Minister of Economic Affairs

For the Government of Honduras:

Fernando Villar
Minister of Economic Affairs and Finance

For the Government of Nicaragua:

Enrique Delgado
Minister of Economic Affairs

For the Government of Costa Rica:

Wilburg Jimenez Castro
Vice-Minister of Economic Affairs and Finance

APPENDIX III

CENTRAL AMERICAN CONVENTION ON THE EQUALIZATION OF IMPORT DUTIES AND CHARGES

The Governments of the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica,

Bearing in mind the commitments contracted under the terms of the Multilateral Treaty on Free Trade and Central American Economic Integration, signed at Tegucigalpa on 10 June 1956, and being convinced that, if the Central American free-trade area is to be established in its final form within ten years, pursuant to the provisions of the said Treaty, their respective customs tariffs must be equalized,

Have decided to conclude the present Agreement, and for that purpose have appointed as their respective plenipotentiaries:

- H. E. The President of the Republic of Guatemala: Eduardo Rodriguez Genis, Minister of Economy;
- H. E. The President of the Republic of El Salvador: Alfonso Rochac, Minister of Economy
- H. E. The President of the Republic of Honduras: Jorge Bueso Arias, Minister of Economy and Finance;
- H. E. The President of the Republic of Nicaragua: Enrique Delgado, Minister of Economy;
- H. E. The President of the Republic of Costa Rica: Alfredo Hernandez Volio, Minister of Economy and Finance;

who having exchanged their full powers, found to be in good and due form, have agreed as follows:

Chapter I

SYSTEM OF EQUALIZATION OF IMPORT DUTIES AND CHARGES

Article I

The Contracting States agree to establish a common tariff policy and decide to set up a Central American import tariff consistent with the integration and economic development requirements of Central America. To this end, they agree to equalize import duties and charges within not more than five years from the date on which the present Agreement enters into force.

The Signatory States shall maintain the Standard Central American Tariff Nomenclature as the basis of the customs tariff for imports.

- Article II

For the purposes of article I hereof and of article IV of the Multilateral Treaty on Free Trade and Central American Economic Integration, the Contracting States agree to adopt forthwith the tariffs and tariff denominations specified in Schedule A. They likewise agree to establish an interim system of exemptions, with a view to progressive equalization, in respect of the items included on Schedule B. The two schedules form an integral part of the present Agreement.

Article III

The Contracting Parties, besides aiming at tariff equalization in conformity with article IV of the Multilateral Treaty on Free Trade and Central American Economic Integration and with a view to expediting the establishment of the Central American import tariff, pledge themselves, with respect to additions to Schedules A and B, to observe, by preference, the following order of priorities:

- a) Commodities in respect of which the immediate or progressive liberalization of trade is provided for under the terms of bilateral free-trade treaties concluded between the Contracting Parties to the Agreement;
- b) Goods manufactured in Central America;
- c) Imported goods for which goods produced in Central America may be substituted over the short term.
- d) Raw materials, intermediate products and containers, priority being given to those required for the production and sale of the items included in the foregoing sub-paragraphs; and
- e) Other goods.

Article IV

Once tariff equalization has been achieved in respect of the items comprised in the groups of products referred to in the foregoing article, the Contracting States pledge themselves to apply to these same items multilateral free-trade treatment within not more than five years, without exceeding the ten-year time limit stipulated in article I of the Multilateral Treaty for the establishment of the free-trade area in its final form.

Article V

The Parties engage not to impose or levy any tax other than those provided for in this Agreement on imports of goods included in Schedules A and B. The bases for valuation adopted are the c.i.f. import value in the case of the ad valorem part, and, for the specific component, the standard physical units set forth in Schedules A and B.

If any of the Signatory States is not in a position to abolish consular fees immediately in respect of the goods included in Schedules A and B, it shall be entitled to maintain the fees as such, discounting the value they represent from the ad valorem part of the duty and/or charge agreed upon. The term "duty and/or charge agreed upon" shall be understood to mean the duty and/or charge immediately applicable by all Parties to the goods included in Schedule A;

that which all Parties pledge themselves to reach by the end of the interim period, in the case of goods included in Schedule B; and the tariffs established by any of the Parties with a view to progressive equalization in respect of the goods included in Schedule B and to attainment of the stipulated standard duty by the end of the interim period.

In the case of items which are equalized at levels below the consular fee - either immediately (Schedule A) or by the end of the interim period (Schedule B) - the Signatory States shall not charge consular fees.

Article VI

The Contracting States agree to the establishment of fixed equivalences, solely for equalization purposes, between the currency units in which each country's tariff duties are expressed and a common currency unit equivalent to the United States dollar. These equivalences, which are those existing at the date of signature of the present Agreement, are established as follows: Guatemala, 1 quetzal; El Salvador, a currency unit equivalent to the United States dollar; Honduras, 2 lempiras; Nicaragua, a currency unit equivalent to the United States dollar; and Costa Rica, 5.67 or 6.65 colons, according to the exchange provisions applicable to the item in question. If a country makes any change in the equivalence of its currency unit vis-a-vis the United States dollar in respect of goods included in Schedules A and B, it shall be under the obligation to alter its tariffs immediately in the proportion necessary to maintain equalization.

Article VII

In order to make the equalization of import duties and charges effective, the Contracting Parties shall renegotiate any multilateral or bilateral pacts that remain in force with non-signatories of the present Agreement whereby tariffs lower than those established herein are consolidated and shall release themselves from the consolidation commitment assumed within not more than one year from the date of deposit of the corresponding instrument of ratification of this agreement. Likewise, the Contracting Parties undertake to refrain from signing new agreements or tariff concessions with other countries which are contrary to the spirit and objectives of the present Agreement and, in particular, to the provisions of this article.

Article VIII

Wheresoever the duty agreed upon for a specific product is higher than the tariff in force in one or more of the Contracting Parties, the countries concerned shall apply, in an inter-Central American trade not covered by the free-trade regime, the lower tariff in force, unless the Central American Trade Commission decides otherwise.

The preferential tariffs which the Parties pledge themselves to establish are set forth in Schedule A and in Annex 6 of Schedule B (this annex forms an integral part of the schedule in question).

"Tariff in force" shall be understood to mean the sum of ~~the~~ tariff duties, consular fees and other duties, charges and surcharges levied on imports of the goods listed in Schedules A and B at the time the present Agreement is signed. Legal rates and charges for services rendered are not included.

As this Agreement is specifically Central American in character and constitutes one of the bases for the customs union of the Contracting Parties, the Signatory States agree to maintain the "Central American exemption clause" with respect to third countries, to the extent that the application of the preferential tariff system established by the present article is concerned.

Article IX

The Schedules appended to this Agreement shall be expanded, by agreement among the Contracting States, through the signing of successive protocols and in accordance with respective constitutional procedures.

Chapter II

CENTRAL AMERICAN TRADE COMMISSION

Article X

The Signatory States agree to set up a Central American Trade Commission, made up of representatives of each of the Contracting Parties, which shall meet as often as its work requires or when any of the Contracting States so requests.

The Commission (or any of its members) shall be entitled to travel freely in the territory of the Contracting Parties in order that matters within its purview may be studied on the spot, and the authorities of the Signatory States shall provide such information and facilities as it/they may need for the discharge of its/their functions.

The Commission shall have a permanent Secretariat which shall have a permanent Secretariat, which shall be responsible to the Secretariat of the Organization of Central American States.

The Commission shall adopt its own rules of procedure unanimously.

Article XI

The following shall be the terms of reference of the Central American Trade Commission:

- a) To recommend to the Contracting Parties measures conducive to the establishment of the Central American customs tariff referred to in this Agreement;
- b) To study, at the request of one or more Governments, topics or matters relating to the development of tariff equalization and in particular to the implementation of the present Agreement, and to propose the measures that should be adopted in order to solve such problems as may arise;

c) To study production and trade activities in the Signatory States and recommend additions to Schedules A and B;

d) To act as the agency responsible for co-ordinating tariff equalization, taking into special consideration the progress made in this field by virtue of bilateral treaties signed between Central American countries, with a view to submitting early proposals for standard duties and charges and endeavouring to promote their adoption by all the Contracting Parties. In this connection, the Parties undertake to notify the Commission of bilateral tariff equalization agreements as soon as these are negotiated;

e) To study the various aspects of the maintenance of uniformity in the application of the Standard Central American Tariff Nomenclature and to recommend to the Contracting Parties such amendments as may seem advisable in the light of experience and from the standpoint of increased diversification of production in Central America;

f) To take steps calculated to establish and maintain uniformity in customs regulations.

In the discharge of its functions, the Commission shall utilize the studies carried out by other Central American international bodies.

Chapter III

GENERAL PROVISIONS

Article XII

The Contracting Parties agree to renegotiate at the request of any one of their number, and through the Central American Trade Commission, the standard duties and charges agreed upon and the standardized tariff classification. The renegotiation shall affect only those goods in respect of which it is applied for.

Decisions in this connection shall be adopted by the unanimous vote of the States for which the Agreement is in force. In any event, every change shall be introduced at uniform levels.

Article XIII

The Signatory States agree that differences arising in connection with the interpretation or application of any of the provisions of this Agreement shall be settled amicably, in accordance with the spirit of the Agreement, through the Central American Trade Commission. In the event of failure to reach agreement, controversies shall be decided by arbitration. To form the tribunal of arbiters, each of the Contracting Parties shall submit to the Secretariat of the Organization of Central American States the names of three magistrates from its respective Supreme Court of Justice. From the complete list of candidates, the Secretary-General of the Organization of Central American States and Government representatives to this Organization shall choose by lot five arbiters to form the tribunal, each of whom must be of a different nationality.

The ruling of the tribunal of arbiters shall be awarded on the affirmative vote of at least three of the members present, and shall have the effect of res judicata for all the Contracting Parties in respect of any point settled in connection with the interpretation or application of the provisions of the Agreement.

Chapter IV

INTERIM SYSTEM

Article XIV

To facilitate the equalization of import duties and charges in the case of products with respect to which, for economic, fiscal or other motives, it is impossible to establish a standard tariff to be applied immediately by all Parties, the Contracting States establish an interim system of progressive equalization.

The Contracting States agree to adopt progressively, for the goods included in Schedule B, the standard duties given in column I of the said Schedule, each Party conforming to the time limit (column II), to the initial tariffs (column III), and to the tariff denomination established therein.

The first change in the initial tariffs shall be introduced twelve months after the date on which the present Agreement enters into force, and succeeding modifications shall be affected for periods of 12 months exactly, until the duty agreed upon is reached.

In annexes 1 to 5 of Schedule B, the tariffs applicable by the Contracting Parties during each year of the interim period are set forth. These annexes form an integral part of Schedule B.

When progressive equalization is being put into effect, the annual decrease or increase in tariffs which must be introduced by each Contracting Party shall not be less than the quotient resulting from division of the total amount of the decrease or increase to be effected by the number of years in the interim period. This commitment shall be binding on the Contracting States except in so far as, during the interim period, they may have introduced annual changes exceeding those agreed upon.

This interim system does not preclude the immediate adoption of the standard duty by a group of countries smaller than the total number of the Contracting Parties, or release the remaining country or countries from the commitment to attain the said standard duty by means of progressive equalization.

When the interim period ends for each of the goods or articles included in Schedule B, these shall be automatically transferred to Schedule A.

Chapter V

FINAL PROVISIONS

Article XV

This Agreement shall be submitted by each State for ratification in conformity with the pertinent constitutional and legal procedure and shall enter into force, for the first three countries to deposit the instrument of ratification, on the date of deposit of the third such instrument, and, for countries acceding thereafter, on the date of deposit of their respective instruments of ratification. Its duration shall be twenty years from the date of its entry into force, and it shall be tacitly renewed for successive ten-year periods.

The Contracting States agree that the tariff equalization of goods included in Schedule B shall be completed by the end of the interim period which shall begin upon the entry into force of the Agreement. Consequently, they agree to effect progressive tariff equalization within the time limit established at the end of the interim period, without changing the year-by-year tariffs established in the relevant annex of Schedule B, each State taking as a base the level which it would have reached if it had deposited its instrument of ratification upon the entry into force of the Agreement.

The present Agreement may be denounced by any of the Signatory States at least two years before the date of expiry of the initial period or of the succeeding periods during which it is in force. Denunciation shall become effective for the denouncing State at the date on which the corresponding period of validity of the Agreement ends, and the Agreement shall remain in force for the other Parties so long as at least two of them continue to uphold it.

Article XVI

The present Agreement shall be deposited with the Secretariat of the Organization of Central American States, which shall send certified copies to the Chancelleries of each of the Contracting States and shall also notify them of the deposit of the pertinent instruments of ratification, as well as of any denunciation which may take place within the time limits established in that connection. Upon the entry into force of the Agreement, it shall also transmit a certified copy to the Secretariat of the United Nations for registration in conformity with Article 102 of the United Nations Charter.

Provisional article

With respect to the implementation of article X of this Agreement the Contracting Parties agree that preferential duties shall not be applicable to the items or sub-items of the Standard Central American Tariff Nomenclature which are included both in annex A of the Multilateral Treaty and in Schedules A and B of the present Agreement.

Provisional article

The Signatory States agree that representatives of the Parties for which the Agreement has not entered into force shall be entitled to attend meetings of the Central American Trade Commission as observers with the right to speak but not to vote.

In witness whereof, the respective plenipotentiaries sign the present Agreement at the city of San Jose, capital of the Republic of Costa Rica, the first day of September one thousand nine hundred and fifty-nine.

For the Government of Guatemala:

Eduardo Rodriguez Genis
Minister of Economy

For the Government of El Salvador:

Alfonso Rochac
Minister of Economy

For the Government of Honduras:

Jorgo Bueso Arias
Minister of Economy and Finance

For the Government of Nicaragua:

Enrique Delgado
Minister of Economy

For the Government of Costa Rica

Alfredo Hernandez Volio
Minister of Economy and Finance

APPENDIX IV

PROTOCOL TO THE CENTRAL AMERICAN AGREEMENT ON THE QUALIZATION OF IMPORT DUTIES AND CHARGES

Central American Preferential Tariff

The Governments of the Republics of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica,
Whereas the Contracting States have signed the Central American Agreement on the Equalization of Import Duties and Charges, the purpose whereof is to promote free trade in Central America,
Being convinced that the establishment of a Central American preferential tariff will be conducive to the expansion of their reciprocal trade and will further the creation of new productive activities,
Have decided to conclude the present Protocol, and for that purpose have appointed as their respective plenipotentiaries:

- H. E. The President of the Republic of Guatemala: Eduardo Rodriguez Genis, Minister of Economy;
- H. E. The President of the Republic of El Salvador: Alfonso Rochac, Minister of Economy;
- H. E. The President of Honduras: Jorge Bueso Arias, Minister of Economy and Finance;
- H. E. The President of the Republic of Nicaragua: Enrique Delgado, Minister of Economy;
- H. E. The President of the Republic of Costa Rica: Alfredo Hernandez Volio, Minister of Economy and Finance;

Who having exchanged their full powers, found in good and due form, have agreed as follows:

Article I.

The Contracting States agree to grant one another, as from the date on which this Protocol enters into force, a preferential tariff of 20 per cent on imports of the natural products of their territories and goods manufactured therein. The reduction shall be applicable to the sum total of import duties and charges including tariff duties, consular fees and other surcharges and taxes.

Article II

The Signatory States agree to maintain the "Central American exemption clause" with respect to the application of the preferential tariff established in the preceding article.

Article III

This Protocol shall be subject to ratification by each State, in conformity with its pertinent constitutional and legal regulations; and shall enter into force for the first three countries to deposit the instrument of ratification

on the date of deposit of the third such instrument, and for countries subsequently acceding on the date of deposit of their respective instruments of ratification. Its duration shall be twenty years from the date of its entry into force, and it shall be tacitly renewed for successive ten-year periods.

The present Protocol may be denounced by any of the Signatory States at least two years before the date of expiry of the initial period or of the succeeding periods during which it is in force. Denunciation shall become effective for the denouncing State at the date on which the corresponding period of validity of the Agreement ends, and the Agreement shall remain in force for the other Parties so long as at least two of them continue to uphold it.

Article IV

Ratification of this Protocol is independent of the ratification of the Central American Agreement on the Equalization of Import Duties and Charges signed on the same date by the Contracting Parties, and denunciation of this instrument is likewise independent of denunciation of the aforesaid Agreement.

Article V

The Secretariat of the Organization of Central American States shall be the depositary of the present Protocol, of which it shall send certified copies to the Chancelleries of each of the Contracting States, notifying them likewise of the deposit of the pertinent instruments of ratification, as well as of any denunciation which may take place within time limits established in that connection. Upon the entry into force of the Protocol, it shall also transmit a certified copy to the United Nations Secretariat for registration purposes, in conformity with Article 102 of the United Nations Charter.

In witness whereof the respective plenipotentiaries sign the present Agreement at the city of San Jose, capital of the Republic of Costa Rica, this first day of September one thousand nine hundred and fifty-nine.

For the Government of Guatemala:

Eduardo Rodriguez Genis
Minister of Economy

For the Government of El Salvador:

Alfonso Rochac
Minister of Economy

For the Government of Honduras:

Jorge Bueso Arias
Minister of Economy and Finance

For the Government of Nicaragua:

Enrique Delgado
Minister of Economy

For the Government of Costa Rica:

Alfredo Hernandez Volio
Minister of Economy and Finance

APPENDIX V

JOINT DECLARATION OF THE PRESIDENTS OF GUATEMALA, HONDURAS, AND EL SALVADOR ON A TRIPARTITE TREATY OF ECONOMIC ASSOCIATION

Miguel Ydigoras Fuentes, President of Guatemala, Ramon Villeda Morales, President of Honduras, and Jose Maria Lemus, President of El Salvador, having met at the common border of the three countries to make a sober review of the economic and social situation of their countries and the measures thus far put into practice to achieve integration of their economies, have agreed as follows:

ONE: The principal concern of the three Governments is to promote the economic development of their respective countries in order to improve the standard of living of their peoples.

TWO: To attain this goal, the following steps, among others, are necessary:

- (a) To increase sources of employment;
- (b) To make better use of human potentialities and natural resources;
- (c) To promote industrial development and modernize agricultural methods;
- (d) To increase productivity and reduce costs for the benefit of consumers;
- (e) To encourage the investment of national and foreign capital in the region and facilitate access to the various sources of credit; and
- (f) To increase the number of consumers and their purchasing power.

THREE: For this purpose, it is essential to increase the consumption of articles produced in the region, facilitate the exchange of such goods through free trade, and accelerate the Program for the Economic Integration of Central America.

FOUR: The geographic contiguity of the three countries, the traditional existence of bilateral free trade treaties, and a relatively extensive transportation network between them have given rise to a growing exchange of persons and goods.

FIVE: These circumstances enable the three countries to adopt immediate measures of cooperation that will strengthen their existing economic relations and promote Central American economic integration.

SIX: Attainment of these purposes requires a joint effort to expand free trade, diminish the effect of any imbalance that may develop, and establish a groundwork that will make possible the balanced economic development of the three countries.

Accordingly, they declare that it is the purpose of their Governments to establish in the near future an economic association among the three countries.

To that end, they authorize their respective Ministers of Economy to sign a treaty within thirty days establishing the machinery for achieving closer integration of their economies through formulas of definite and genuine Central American interdependence.

January 9, 1960

Miguel Ydigoras Fuentes

Ramon Villeda Morales

Jose Maria Lemus

APPENDIX VI

TREATY OF ECONOMIC ASSOCIATION BETWEEN THE REPUBLICS OF HONDURAS, GUATEMALA, AND EL SALVADOR

The Governments of the Republics of Honduras, Guatemala, and El Salvador,

For the purpose of stimulating the economic development of their respective countries in order to improve the standard of living of their peoples;

Convinced that it is necessary to strengthen and expand existing economic cooperation between the three countries and thus contribute to Central American integration;

Considering that the Presidents of the three Republics declared that it was imperative to accelerate the integration and development of the economies of the region;

For the purpose of establishing in the near future a common market jointly to promote production and investment, and of establishing the necessary machinery to promote economic cooperation between them;

Have decided to enter into this Treaty of Economic Association and to that end have appointed the following Plenipotentiaries:

His Excellency the President of the Republic of Honduras, Jorge Bueso Arias, Minister of Economy and Finance;

His Excellency the President of the Republic of Guatemala, Eduardo Rodriguez Genis, Minister of Economy; and

His Excellency the President of the Republic of El Salvador, Dr. Alfonso Rochac, Minister of Economy;

Who having communicated to each other their full powers, found to be in good and due form, have agreed as follows:

Basic Principles

Article 1. The Contracting Parties hereby establish an Economic Association, which will guarantee the free movement of persons, goods, and capital between their territories.

Article 2. The nationals of each Signatory State shall enjoy the right to enter and leave the territory of the other Contracting Parties with no restrictions other than those established for nationals of such Contracting Parties.

Likewise, the nationals of any Contracting Party shall enjoy national treatment in the territory of the others, pursuant to each State's domestic laws on civil, trade, tax, and labor matters.

Article 3. When the customs union referred to in Chapter III is established there shall be free movement of goods between the territories of the Contracting Parties without distinction as to origin, source, or destination. In the transition period before the customs union is established, however, only natural products and manufactured articles originating in the territories of the Contracting Parties shall enjoy free movement, and trade in them shall conform to the terms and conditions fixed hereinafter.

Article 4. The Contracting Parties shall endeavor to maintain free convertibility of their currencies, and in no case may exchange restrictions be established that discriminate against any Contracting Party.

Article 5. Each Contracting Party shall accord national treatment with respect to capital investments by natural or juristic persons of the other Signatory States and the right to organize and manage companies and participate therein .

Each Contracting Party shall issue regulations relating to investments by juristic persons in which nationals of third countries participate.

Article 6. The Contracting Parties shall see that no legislative or administrative provision unduly impedes the free movement of persons, goods, and capital between them.

Article 7. To create reasonably equitable trade conditions, the Contracting Parties shall endeavor to standardize legislative or other measures that affect production activities.

Article 8. The Contracting Parties shall adopt a policy of cooperation and mutual consultation with reference to trade between them and their economic relations with countries outside Central America.

Common Market

Article 9. Natural products originating in the territories of the Contracting Parties and those manufactured therein shall, except only for the restrictions set forth in Annex A of this Treaty, enjoy immediate free trade. Accordingly, these commodities shall be exempt from all import or export charges, including consular fees.

The exemptions contemplated in this Article shall not include fees for lighterage, wharfage, warehousing, handling of goods, or any others payable under law for port, custodial, or transportation services.

For the purpose of this Article, products shall not be considered to be manufactured in one of the Contracting Parties, when they are manufactured

in a third country and are only packed, packaged, out, or simply diluted in the exporting country.

Article 10. The products listed in Annex A shall be subject to special treatment and arrangements in accordance with the terms fixed therein.

Article 11. Goods from each Contracting Party shall be subject to any national or municipal levies and taxes on production, sale, distribution, trade, and consumption that have been or may hereafter be established in the importing country, and it is understood that these domestic levies and taxes shall not be different from or higher than those applied to the national goods of the said importing country.

When products subject to domestic taxes are not produced in the importing country, the latter shall also levy a duty on the importation of similar products originating in third countries.

Article 12. Products that constitute government monopolies on the date of this Treaty, pursuant to the domestic provisions of any Contracting Party, shall be subject to the pertinent legal provisions of each country.

The creation of new monopolies or any change in the system of existing one shall be preceded by consultation between the parties concerned, for the purpose of subjecting trade in the products in question to special treatment.

Article 13. Products whose exportation and importation is governed by international agreements shall be subject to the provisions of those agreements.

Article 14. The customs authorities of the Signatory States shall provide every possible facility in order that the trade established between the three countries may be conducted as expeditiously as possible. Goods for importation or exportation between the Contracting Parties shall be covered by a customs form signed by the exporter, which shall contain a declaration of origin and which must be countersigned by the customs officials of the exporting and importing countries, as established in Annex B of this Treaty.

Article 15. When there are doubts concerning the origin of a product, the State that considers itself affected shall submit the matter to the Administrative Board established by this Treaty for consideration, and if the Board deems it advisable, it shall rule that the form referred to in the preceding Article must be accompanied by a declaration of origin signed by the producer of the article being exported or by a certificate issued by the Ministry of Economy of the exporting country.

Article 16. No Signatory State shall grant subsidies on the exportation of goods intended for the territory of the other States, nor shall it permit goods to be exported to the territory of the other States at less than the usual price.

When there are charges of unfair trade practices, the State that considers itself affected shall submit the matter to the Administrative Board for consideration, and the Board shall rule thereon.

Customs Union

Article 17. The Contracting Parties agree to equalize all import duties within five years of the entry into force of this Treaty. This equalization shall include all levies, taxes, and charges of any kind.

The equalization shall be carried out in accordance with the terms of the Central American Agreement on the Equalization of Import Duties, but it shall not be delayed in case the Central American levels have not been established within the five-year period provided in this Article.

Article 18. After all import duties have been equalized, the Contracting Parties shall determine the bases for a Joint Customs Administration, revenues from which shall be equitably distributed among the Signatory States.

The organization of the Joint Customs Administration and the method of distributing its revenues shall be the subject of a special protocol.

Development and Assistance Fund

Article 19. The Contracting Parties agree to set up a Development and Assistance Fund, which shall have juristic personality under international law and the purpose of which shall be to contribute through its activities to the economic integration and development of the associated countries, by facilitating public and private investment for production purposes.

The operation of the Fund shall be governed by its bylaws, and it shall have legal capacity to enter into and carry out active and passive financial transactions.

Accordingly, one of its functions shall be to grant loans and guaranties to the Governments of the Signatory States and to private companies established in their respective territories for the following purposes:

- (a) Acceleration of the establishment of a balanced economic structure in the signatory countries;
- (b) Construction, extension, and improvement of highways connecting the territories of the Contracting Parties and the execution of economic development projects of common interest;
- (c) Expansion or improvement of companies, especially for the purpose of diminishing the adverse effect of any imbalance that may result from the establishment of the common market; and

(d) Financing of new companies that, because of their size or nature, may be established in connection with the common market.

Article 20. The resources of the Fund shall be as follows:

(a) The contributions or quotas paid by the Governments of the Contracting Parties, the understanding being that such contributions shall be in proportion to the ability of each Signatory State to pay;

(b) Credit resources obtained in capital markets; and

(c) Any income derived from national, foreign, or international public or private organizations, on any legal basis whatsoever.

An additional protocol shall establish the method of payment, time limit, and amount of the contributions of each Contracting Party. The protocol referred to in this Article shall be incorporated in the bylaws of the Fund, and it shall be signed within 120 days of the signature of this Treaty.

Organs of the Association

Article 21. The organs of the Economic Association established by this Treaty shall be as follows:

(a) The Executive Committee; and

(b) The Administrative Board.

Article 22. The Executive Committee shall be composed of the Ministers of Economy of the Contracting Parties. It shall meet at least once every three months or at the request of any one of them, and its principal function shall be to establish the general policy to be followed in order to facilitate the economic integration of the signatory countries. Its decisions shall be implemented by the Administrative Board in accordance with the terms stipulated to that effect.

The Executive Committee shall issue the regulations necessary for facilitating the implementation of this Treaty.

Article 23. The Administrative Board shall be responsible for all activities and work whose purpose is to put into practice the economic union of the Contracting Parties and it shall submit an annual report of its work to the Executive Committee.

The Administrative Board shall be composed of one regular member and one alternate appointed by each Contracting Party. It shall meet at least once a month or at the request of any Signatory State, and it shall adopt its decisions by a majority vote.

The Board shall prepare its rules of procedure and submit them to the Executive Committee for consideration. Its duties shall be those established

in the said rules of procedure and those assigned to it by the Executive Committee. It shall also have the duties and powers of the joint committees established by bilateral treaties.

Article 24. The Administrative Board shall have a permanent secretariat and shall be empowered to appoint its personnel. Administrative expenses for the maintenance and operation of the Board and the Secretariat shall be borne by the Development and Assistance Fund. The amount and distribution of the administrative expenses shall be determined by the Executive Committee.

Article 25. The Board shall be authorized to appoint committees and working groups to function as advisory bodies.

General Provisions

Article 26. Matters relating to shipping, fishing in territorial waters, international transit, communications, customs legislation, monetary problems and others not expressly provided for in this Treaty shall be resolved by means of additional protocols to the Treaty. These protocols shall be concluded on the recommendation of the Administrative Board.

Article 27. The provisions of this Treaty shall not affect the provisions of bilateral or multilateral treaties on the economic integration of Central America that are not contrary to them.

However, this Treaty shall be applied in preference to any Central American bilateral or multilateral treaty, in so far as it liberalizes the provisions of such treaties.

Article 28. No provision of this Treaty may be contrary to or prejudice the conclusion of agreements on Central American economic integration.

Article 29. Any differences that may arise concerning the interpretation or application of any clause of this Treaty shall be submitted to the Administrative Board for consideration, and it shall rule on the matter.

If a Contracting Party is not satisfied with the Board's decision, it may appeal to the Executive Committee. If it does not agree with the Committee's decision, it may submit the matter to a court of arbitration made up as follows: each Contracting Party shall suggest the names of three justices of its Supreme Court to the Administrative Board. From the total list of candidates, the Board shall select by lot three arbitrators to form the court, each of whom must be of a different nationality.

The judgment of the court of arbitration shall be pronounced by an affirmative vote of two members, and it shall have the force of res judicata for all the Contracting Parties with respect to any question it resolves concerning the interpretation or application of the clauses of this Treaty.

Article 30. In accordance with the Central American spirit that has motivated the conclusion of this Treaty, the Contracting Parties shall jointly issue an invitation to the other Central American countries to participate in the Association in accordance with such bases as may be determined by common agreement.

Article 31. This Treaty shall be in effect for 20 years and at the expiration of that period it may be extended indefinitely unless five years' notice of its denunciation is given. It shall continue to be in force as long as at least two countries adhere to it.

This Treaty shall enter into force on the date of the exchange of the respective instruments of ratification.

It shall enter into force with respect to the other Central American countries as soon as the pertinent instruments of ratification have been deposited in the Foreign Ministry of the Country where the exchange is made.

In witness whereof, the Plenipotentiaries of Guatemala, El Salvador, and Honduras sign this instrument in three original copies in Guatemala City on February 6, 1960.

APPENDIX VII

GENERAL TREATY ON CENTRAL AMERICAN ECONOMIC INTEGRATION

The Governments of the Republics of Guatemala, El Salvador, Honduras and Nicaragua,
For the purpose of reaffirming their intention to unify the economics of the four countries and jointly to promote the development of Central America in order to improve the living conditions of their peoples,
Mindful of the need to expedite the integration of their economics, consolidate the results so far achieved and lay down the principles on which it should be based in the future,
Having regard to commitments entered into in the following instruments of economic integration:

Multilateral Treaty on Free Trade and Central American Economic Integration;
Central American Agreement on the Equalization of Import Duties and Charges and its Protocol on the Central American Preferential Tariff;
Bilateral treaties on free trade and economic integration signed between Central American Governments;
Treaty on Economic Association signed between Guatemala, El Salvador and Honduras,

Have agreed to conclude the present Treaty and for that purpose have appointed as their respective plenipotentiaries:

H. E. The President of the Republic of Guatemala: Mr. Julio Prado Garcia Salas, Minister for Co-ordinating Central American Integration, and Mr. Alberto Fuentes Mohr, Head of the Economic Integration Bureau,

The H. Junta de Gobierno of the Republic of El Salvador: Mr. Gabriel Pilon Araujo, Minister for Economic Affairs, and Mr. Abelardo Torres, Under-Secretary for Economic Affairs,

H. E. The President of the Republic of Honduras: Mr. Jorge Bueso Arias, Minister for Economic and Financial Affairs,

H.E. The President of the Republic of Nicaragua: Mr. Juan Jose Lugo Marengo, Minister for Economic Affairs,

who, having exchanged their respective full powers, found to be in good and due form, have agreed as follows:

Chapter I

CENTRAL AMERICAN COMMON MARKET

Article I

The Contracting States agree to establish among themselves a common market which shall be brought into full operation within a period of not more than five years from the date on which the present Treaty enters into force. They further agree to create a customs union in respect of their territories.

Article II

For the purposes of the previous article the Contracting Parties undertake to bring a Central American free-trade area into full operation within a period of five years and to adopt a standard Central American tariff as provided for in the Central American Agreement on the Equalization of Import Duties and Charges.

Chapter II

TRADE REGIME

Article III

The Signatory States shall grant each other free-trade treatment in respect of all products originating in their respective territories, save only for the limitations contained in the special regimes referred to in Annex A of the present Treaty.

Consequently, the natural products of the Contracting States and the products manufactured therein shall be exempt from import and export duties, including consular fees, and all other taxes, dues and charges levied on imports and exports or charged in respect thereof, whether they be of a national, municipal or any other nature.

The exemptions provided for in this article shall not include charges or fees for lighterage, wharfage, warehousing or handling of goods, or any other charges which may legally be incurred for port, storage or transport services; nor shall they include exchange differentials resulting from the existence of two or more rates of exchange or from other exchange arrangements in any of the Contracting States.

Goods originating in the territory of any of the Signatory States shall be accorded national treatment in all of them and shall be exempt from all quantitative or other restrictions or measures, except for such measures as may be legally applicable in the territories of the Contracting States for reasons of health, security or police control.

Article IV

The Contracting Parties establish special interim regimes in respect of specific products exempting them from the immediate free-trade treatment referred to in article III hereof. These products shall be automatically incorporated into the free-trade regime not later than the end of the fifth year in which the present Treaty is in force, except as specifically provided in Annex A.

The products to which special regimes apply are listed in Annex A and trade in them shall be carried on in conformity with the measures and conditions therein specified. These measures and conditions shall not be amended except by multilateral negotiation in the Executive Council. Annex A is an integral part of the Treaty.

The Signatory States agree that the Protocol on the Central American Preferential Tariff, appended to the Central American Agreement on the Equalization of Import Duties and Charges, shall not apply to trade in the products referred to in the present article for which special regimes are provided.

Article V

Goods enjoying the advantages stipulated in this Treaty shall be designated as such on a customs form, signed by the exporter and containing a declaration of origin. This form shall be produced for checking by the customs officers of the countries of origin and destination in conformity with Annex B of this Treaty.

If there is doubt as to the origin of an article and the matter has not been settled by bilateral negotiation, any of the Parties affected may request the intervention of the Executive Council to verify the origin of the article concerned. The Council shall not consider goods as originating in one of the Contracting States if they originate or are manufactured in a third country and are only simply assembled, wrapped, packed, cut or diluted in the exporting country.

In the cases mentioned in the previous paragraph, importation of the goods concerned shall not be prohibited provided that a guaranty is given to the importing country in respect of payment of the import duties and other charges to which the goods may be liable. The guaranty shall be either forfeited or refunded, as the case may be, when the matter is finally settled.

The Executive Council shall lay down regulations governing the procedure to be followed in determining the origin of goods.

Article VI

If the goods traded are liable to internal taxes, charges or duties of any kind levied on production, sale, distribution or consumption in any of the signatory countries, the country concerned may levy an equivalent amount on similar goods imported from the other Contracting State, in which case it must also levy at least an equivalent amount for the same respective purposes on similar imports from third countries.

The Contracting Parties agree that the following conditions shall apply to the establishment of internal taxes on consumption:

- (a) Such taxes may be established in the amount deemed necessary when there is domestic production of the article in question, or when the article is not produced in any of the Signatory States;
- (b) When the article is not produced in one Signatory State but is produced in any of the others, the former State may not establish taxes on consumption of the article concerned unless the Executive Council so authorizes;
- (c) If a Contracting Party has established a domestic tax on consumption, and production of the article so taxed is subsequently begun in any of the other Signatory States, but the article is not produced in the State that established the tax, the Executive Council shall, if the State concerned so requests, deal with the case and decide whether the tax is

compatible with free trade. The States undertake to abolish these taxes on consumption, in accordance with their legal procedures, on receipt of notification to this effect from the Executive Council.

Article VII

No Signatory State shall establish or maintain regulations on the distribution or retailing of goods originating in another Signatory State when such regulations place, or tend to place, the said goods in an unfavourable position in relation to similar goods of domestic origin or imported from any other country.

Article VIII

Items which, by virtue of the domestic legislation of the Contracting Parties, constitute State monopolies on the date of entry into force of the present Treaty, shall remain subject to the relevant legislation of each country and, if applicable, to the provisions of Annex A of the present Treaty.

Should new monopolies be created or the regime of existing monopolies be changed, the Parties shall enter into consultations for the purpose of placing Central American trade in the items concerned under a special regime.

Chapter III

EXPORT SUBSIDIES AND UNFAIR TRADE PRACTICES

Article IX

The Governments of the Signatory States shall not grant customs exemptions or reductions in respect of imports from outside Central America of articles adequately produced in the Contracting States.

If a Signatory State deems itself affected by the granting of customs import franchises or by governmental imports not intended for the use of the Government itself or of its agencies, it may submit the matter to the Executive Council for its consideration and ruling.

Article X

The Central Banks of the Signatory States shall cooperate closely in order to prevent any currency speculation that might affect the rates of exchange and to maintain the convertibility of the currencies of the respective countries on a basis which in normal conditions, shall guarantee the freedom, uniformity and stability of exchange.

Any Signatory State which establishes quantitative restrictions on international monetary transfers shall adopt whatever measures are necessary to ensure that such restrictions do not discriminate against the other States.

Should serious balance-of-payments difficulties arise which affect, or are apt to affect, monetary relations in respect of payments between the Signatory

States, the Executive Council, acting of its own accord or at the request of one of the Parties, shall immediately study the problem in cooperation with the Central Banks for the purpose of recommending to the Signatory States a satisfactory solution compatible with the maintenance of the multilateral free-trade regime.

Article XI

No Signatory State shall grant any direct or indirect subsidy favouring the export of goods intended for the territory of the other States, or establish or maintain any system resulting in the sale of such goods for export to any other Contracting State at a price lower than that established for the sale of similar goods on the domestic market due allowance being made for differences in the conditions and terms of sale and taxation and for any other factors affecting price comparability.

Any measure involving the fixing of, or discrimination in, prices in a Signatory State which is reflected in the establishment of sales prices for specific goods in the other Contracting States at levels lower than those that would result from the normal operation of the market in the exporting country shall be deemed to constitute an indirect export subsidy.

If the importation of goods processed in a Contracting State with raw materials purchased under conditions of monopsony at artificially low prices should threaten existing production in another Signatory State, the Party which considers itself affected shall submit the matter to the consideration of the Executive Council for a ruling as to whether an unfair business practice is in fact involved. The Executive Council shall, within five days of the receipt of the request, either give its ruling or authorize a temporary suspension of free trade, while permitting trade to be carried on subject to the award of a guaranty in the amount of the customs duties. This suspension shall be effective for thirty days, within which period the Executive Council shall announce its final decision. If no ruling is forthcoming within the five days stipulated, the Party concerned may demand a guaranty pending the Executive Council's final decision.

However, tax exemptions of a general nature granted by a Signatory State with a view to encouraging production shall not be deemed to constitute export subsidies.

Similarly, any exemption from internal taxes levied in the exporting State on the production, sale or consumption of goods exported to the territory of another State shall not be deemed to constitute an export subsidy. The differentials resulting from the sale of foreign currency on the free market at a rate of exchange higher than the official rate shall not normally be deemed to be an export subsidy; if one of the Contracting States is in doubt, however, the matter shall be submitted to the Executive Council for its consideration and opinion.

Article XII

As a means of precluding a practice which would be inconsistent with the purposes of this Treaty, each Signatory State shall employ all the legal means at its disposal to prevent the export of goods from its territory to the territories of the other States at a price lower than their normal value, if such export would prejudice or be liable to prejudice the production of the other States or retard the establishment of a national or Central American industry.

Goods shall be deemed to be exported at a price lower than their normal value if their export price is less than:

- (a) the comparable price in normal trade conditions, of similar goods destined for domestic consumption in the exporting country; or
- (b) the highest comparable price of similar goods for export to a third country in normal trade conditions; or
- (c) the cost of production of the goods in the country of origin, plus a reasonable amount for sales expenses and profit.

Due allowance shall be made in every case for existing differences in conditions and terms of sale and taxation and for any other factors affecting price comparability.

Article XIII

If a Contracting Party deems that unfair trade practices not covered in article XI exist, it cannot impede trade by a unilateral decision but must bring the matter before the Executive Council so that the latter can decide whether in fact such practices are being resorted to. The Council shall announce its decision within not more than 60 days from the date on which it received the relevant communication.

If any Party deems that there is evidence of unfair trade, it shall request the Executive Council to authorize it to demand a guaranty in the amount of the import duties.

Should the Executive Council fail to give a ruling within eight days, the Party concerned may demand such guaranty pending the Executive Council's final decision.

Article XIV

Once the Executive Council has given its ruling on unfair trade practices, it shall inform the Contracting Parties whether, in conformity with this Treaty, protective measures against such practices should be taken.

Chapter IV

TRANSIT AND TRANSPORT

Article XV

Each of the Contracting States shall ensure full freedom of transit through its territory for goods proceeding to or from the other Signatory States as well as for the vehicles transporting these goods.

Such transit shall not be subject to any deduction, discrimination or quantitative restriction. In the event of traffic congestion or other instances of force majeure, each Signatory State shall treat the mobilization of consignments intended for its own population and those in transit to the other States on an equitable basis.

Transit operations shall be carried out by the routes prescribed by law for that purpose and shall be subject to the customs and transit laws and regulations applicable in the territory of transit.

Goods in transit shall be exempt from all duties, taxes and other charges of a fiscal, municipal or any other character levied on transit, irrespective of their destination, but may be liable to the charges usually applied for services rendered which shall in no case exceed the cost thereof and thus constitute de facto import duties or taxes.

Chapter V

CONSTRUCTION ENTERPRISES

Article XVI

The Contracting States shall grant national treatment to enterprises of other Signatory States engaged in the construction of roads, bridges, dams, irrigation systems, electrification, housing and other works intended to further the development of the Central American economic infrastructure.

Chapter VI

INDUSTRIAL INTEGRATION

Article XVII

The Contracting Parties hereby adopt all the provisions of the Agreement on the Regime for Central American integration industries, and in order to ensure implementation among themselves as soon as possible, undertake to sign, within a period of not more than six months from the date of entry into force of the present Treaty, additional protocols specifying the industrial plants initially to be covered by the Agreement, the free-trade regime applicable to their products and the other conditions provided for in article III of the Agreement.

Chapter VII

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Article XVIII

The Signatory States agree to establish the Central American Bank for Economic Integration which shall be a juridical person. The Bank shall act as an instrument for the financing and promotion of a regionally balanced, integrated economic growth. To that end they shall sign the agreement constituting the Bank, which shall remain open for the signature or accession of any other Central American State which may wish to become a member of the Bank.

It is, however, established that members of the Bank may not obtain guaranties or loans from the Bank unless they have previously deposited their instruments of ratification of the following international agreements:

The present Treaty:

Multilateral Treaty on Free Trade and Central American Economic Integration, signed on 10 June 1958;

Agreement on the Regime for Central American Integration Industries, signed on 10 June 1958; and

Central American Agreement on the Equalization of Import Duties and Charges, signed on 1 September 1959, and its Protocol signed on the same day as the present Treaty.

Chapter VIII

TAX INCENTIVES TO INDUSTRIAL DEVELOPMENT

Article XIX

The Contracting States, with a view to establishing uniform tax incentives to industrial development, agree to ensure as soon as possible a reasonable equalization of the relevant laws and regulations in force. To that end they shall, within a period of six months from the date of entry into force of the present Treaty, sign a special protocol specifying the amount and type of exemptions, the time limits thereof, the conditions under which they shall be granted, the systems of industrial classification and the principles and procedures governing their application. The Executive Council shall be responsible for coordinating the application of the tax incentives to industrial development.

Chapter IX

ORGANS

Article XX

The Central American Economic Council, composed of the Ministers of Economic Affairs of the several Contracting Parties, is hereby established for the purpose of integrating the Central American economies and coordinating the economic policy of the Contracting States.

The Central American Economic Council shall meet as often as required or at the request of any of the Contracting Parties. It shall examine the work of the Executive Council and adopt such resolutions as it may deem appropriate. The Central American Economic Council shall be the organ responsible for facilitating implementation of the resolutions on economic integration adopted by the Central American Economic Co-operation Committee. It may seek the advice of Central American and international technical organs.

Article XXI

For the purpose of applying and administering the present Treaty and of undertaking all the negotiations and work designed to give practical effect to the Central American economic union, an Executive Council, consisting of one titular official and one alternate appointed by each Contracting Party, is hereby established.

The Executive Council shall meet as often as required, at the request of one of the Contracting Parties or when convened by the Permanent Secretariat, and its resolutions shall be adopted by majority vote. In the event of disagreement, recourse will be had to the Central American Economic Council in order that the latter may give a final ruling.

Before ruling on a matter, the Economic Council shall determine unanimously whether the matter is to be decided by a concurrent vote of all its members or by a simple majority.

Article XXII

The Executive Council shall take such measures as it may deem necessary to ensure fulfilment of the commitments entered into under this Treaty and to settle problems arising from the implementation of its provisions. It may likewise propose to the Governments the signing of such additional multilateral agreements as may be required in order to achieve the purpose of Central American economic integration, including a customs union in respect of their territories.

The Executive Council shall assume, on behalf of the Contracting Parties, the functions assigned to the Central American Trade Commission in the Multilateral Treaty on Free Trade and Central American Economic Integration and the

Central American Agreement on the Equalization of Import Duties and Charges, as well as those assigned to the Central American Industrial Integration Commission in the Agreement on the Regime for Central American Integration Industries, as well as the powers and duties of the joint commissions set up under bilateral treaties in force between the Contracting Parties.

Article XXIII

A Permanent Secretariat is hereby instituted, as a juridical person, and shall act as such both for the Central American Economic Council and the Executive Council established under this Treaty.

The Secretariat shall have its seat and headquarters in Guatemala City, capital of the Republic of Guatemala, and shall be headed by a Secretary-General appointed for a period of three years by the Central American Economic Council. The Secretariat shall establish such departments and sections as may be necessary for the performance of its functions. Its expenses shall be governed by a general budget adopted annually by the Central American Economic Council and each Contracting Party shall contribute annually to its support an amount equivalent to not less than fifty thousand United States dollars (US \$50,000), payable in the respective currencies of the Signatory States.

Article XXIV

The Secretariat shall ensure that this Treaty, the Multilateral Treaty on Free Trade and Central American Economic Integration, the Agreement on the Regime for Central American Integration Industries, the Central American Agreement on the Equalization of Import Duties and Charges, bilateral or multilateral treaties on free trade and economic integration in force between any of the Contracting Parties, and all other agreements relating to Central American economic integration already signed or that may be signed hereafter, the interpretation of which has not been specifically entrusted to another organ, are properly executed among the Contracting Parties.

The Secretariat shall ensure implementation of the resolutions adopted by the Central American Economic Council and the Executive Council established under this Treaty and shall also perform such functions as are assigned to it by the Executive Council. Its regulations shall be approved by the Economic Council.

The Secretariat shall also undertake such work and studies as may be assigned to it by the Executive Council and the Central American Economic Council. In performing these duties, it shall avail itself of the studies and work carried out by other Central American and international organs and shall, where appropriate, enlist their cooperation.

Chapter X

GENERAL PROVISIONS

Article XXV

The Signatory States agree not to sign unilaterally with non-Central American countries any new treaties that may affect the principles of Central American economic integration. They further agree to maintain the "Central American exception clause" in any trade agreements they may conclude on the basis of most-favoured-nation treatment with any countries other than the Contracting States.

Article XXVI

The Signatory States agree to settle amicably, in the spirit of this Treaty, and through the Executive Council or the Central American Economic Council, as the case may be, any differences which may arise regarding the interpretation or application of any of its provisions. If agreement cannot be reached, they shall submit the matter to arbitration. For the purpose of constituting the arbitration tribunal, each Contracting Party shall propose to the General Secretariat of the Organization of Central American States, the name of three magistrates from its Supreme Court of Justice. From the complete list of candidates, the Secretary-General of the Organization of Central American States and the Government representatives in the Organization shall select, by drawing lots, one arbitrator for each Contracting Party, no two of whom may be nationals of the same State. The award of the arbitration tribunal shall require the concurring votes of not less than three members, and shall have the effect of res judicata for all the Contracting Parties so far as it contains any ruling concerning the interpretation or application of the provisions of this Treaty.

Article XXVII

The present Treaty shall, with respect to the Contracting Parties, take precedence over the Multilateral Treaty on Free Trade and Central American Economic Integration and any other bilateral or multilateral free-trade instruments signed between the Contracting Parties; it shall not, however, affect the validity of those agreements.

The provisions of the trade and economic integration agreements referred to in the previous paragraph shall be applied between the respective Contracting Parties in so far as they are not covered in the present Treaty.

Pending ratification of the present Treaty by any of the Contracting Parties, or in the event of its denunciation by any of them, the trade relations of the Party concerned with the other Signatory States shall be governed by the commitments entered into previously under the existing instruments referred to in the preamble of the present Treaty.

Article XXVIII

The Contracting Parties agree to hold consultations in the Executive Council prior to signing any new treaties among themselves which may affect free trade.

The Executive Council shall examine each case and determine the effects that the conclusion of such agreements might produce on the free-trade regime established in the present Treaty. On the basis of the Executive Council's examination, the Party which considers itself affected by the conclusion of these new treaties may adopt whatever measures the Council may recommend in order to protect its interests.

Article XXIX

For the purpose of customs regulations relating to free trade, the transit of goods and the application of the Central American Standard Import Tariff, the Contracting Parties shall, within a period of one year from the date of entry into force of the present Treaty, sign special protocols providing for the adoption of a Central American Standard Customs Code and the necessary transport regulations.

Chapter XI

FINAL PROVISIONS

Article XXX

This Treaty shall be submitted for ratification in each State in conformity with its respective constitutional or legislative procedures.

The instruments of ratification shall be deposited with the General Secretariat of the Organization of Central American States.

The Treaty shall enter into force, in the case of the first three States to ratify it, eight days following the date of deposit of the third instrument of ratification and, in the case of the States which ratify it subsequently, on the date of deposit of the relevant instrument.

Article XXXI

This Treaty shall remain effective for a period of twenty years from the date of its entry into force and shall be renewable indefinitely.

Upon expiry of the twenty-year period mentioned in the previous paragraph the Treaty may be denounced by any of the Contracting Parties. Denunciation shall take effect, for the denouncing State, five years after notification, and the Treaty shall remain in force among the other Contracting States so long as at least two of them remain parties thereto.

Article XXXII

The General Secretariat of the Organization of Central American States shall act as depository of this Treaty and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States and shall also notify them immediately of the deposit of each instrument of ratification as well as of any denunciation which may be made. When the Treaty enters into force, it shall also transmit a certified copy thereof to the Secretary-General of the United Nations for the purposes of registration as set forth in Article 102 of the United Nations Charter.

Article XXXIII

The present Treaty shall remain open for the accession of any Central American State not originally a party thereto.

Provisional article

As soon as the Government of the Republic of Costa Rica formally accedes to the provisions of the Treaty, the organs hereby established shall form part of the Organization of Central American States (OCAS) by an incorporation agreement; and the OCAS shall be reorganized in such a way that the organs established by this Treaty retain all their structural and functional attributes.

In witness whereof the respective plenipotentiaries have signed the present Treaty in the City of Managua, capital of the Republic of Nicaragua, this thirteenth day of the month of December nineteen hundred and sixty.

For the Government of Guatemala:

Julio Prado Garcia Salas
Minister for Co-ordinating Central
American Integration

Alberto Fuentes Mohr
Head of the Economic
Integration Bureau

For the Government of El Salvador:

Gabriel Pilona Araujo
Minister of Economic Affairs

Abelardo Torres
Under-Secretary for Economic Affairs

For the Government of Honduras:

Jorge Bueso Arias
Minister of Economic and
Financial Affairs

For the Government of Nicaragua:

Juan Jose Lugo Marengo
Minister of Economic Affairs

APPENDIX VIII

PROTOCOL TO THE CENTRAL AMERICAN AGREEMENT ON THE EQUALIZATION OF IMPORT DUTIES AND CHARGES

The Governments of the Republics of Guatemala, El Salvador, Honduras and Nicaragua,

By virtue of the commitments contracted under article I of the Central American Agreement on the Equalization of Import Duties and Charges, signed at San Jose, Costa Rica, on 1 September 1959, and under articles II and IV of the General Treaty on Central American Economic Integration, signed at Managua, Nicaragua, on this same date,

Convinced that the liberalization of trade and the equalization of customs tariffs should proceed simultaneously, in order that conditions favourable to the expansion and diversification of production in Central America may be created as promptly as possible and that artificial differences in production costs as among the Signatory States may be eliminated.

Have decided to sign the present Protocol, and for that purpose have appointed as their respective plenipotentiaries:

- H. E. The President of the Republic of Guatemala: Julio Prado Garcia Salas, Minister for Co-ordinating Central American Integration, and Alberto Fuentes Mohr, Head of the Economic Integration Bureau;
- The H. Junta de Gobierno of the Republic of El Salvador: Gabriel Pilona Araujo, Minister of Economic Affairs, and Abelardo Torres, Under-Secretary for Economic Affairs;
- H. E. The President of the Republic of Honduras: Jorge Bueso Arias, Minister of Economic and Financial Affairs;
- H. E. The President of the Republic of Nicaragua: Juan Jose Lugo Marenco, Minister of Economic Affairs;

who, having exchange their full powers found to be in good and due form, have agreed as follows:

Article I

The Contracting States agree, in accordance with article IX of the Central American Agreement on the Equalization of Import Duties and Charges, to amplify Schedules A and B of the said Agreement by means of the present Protocol.

Article II

The Contracting Parties agree to adopt forthwith the tariffs and tariff descriptions specified in Schedule A of the present Protocol.

Article III

In compliance with the interim regime of progressive tariff equalization, established by virtue of article XIV of the Central American Agreement on the Equalization of Import Duties and Charges, the Contracting Parties agree to adopt, for the goods included in Schedule B of the present Protocol, the standard duties specified in column I of the said Schedule, each Party conforming to the time limit (column II), to the initial tariffs (column III) and to the tariff descriptions established therein.

In annexes 1 to 4 of Schedule B, the tariffs applicable by the Contracting Parties during each year of the interim period are set forth. These annexes form an integral part of Schedule B.

Article IV

Among such Contracting Parties as shall have agreed upon the liberalization of their reciprocal trade as a general interim regime, besides granting one another specific preferential treatment in exceptional cases, the provisions in the first and second paragraphs of article VIII of the Central American Agreement on the Equalization of Import Duties and Charges relating to preferential tariffs shall be null and void.

Article V

This Protocol shall be submitted to each State for ratification in conformity with its pertinent constitutional or legal procedures.

The instruments of ratification shall be deposited with the General Secretariat of the Organization of Central American States. The Protocol shall enter into force, for the first three countries to deposit the instrument of ratification, eight days after the date of deposit of the third such instrument and, for countries acceding thereafter, on the date of deposit of their respective instruments of ratification.

Article VI

The General Secretariat of the Organization of Central American States shall be the depository of the present Protocol and shall send certified copies thereof to the Ministry of Foreign Affairs of each of the Contracting States, notifying it likewise of the deposit of each of the pertinent instruments of ratification. Upon the entry into force of the Protocol, it shall also transmit a certified copy thereof to the United Nations Secretariat, for registration purposes, in conformity with Article 102 of the United Nations Charter.

Article VII

The duration of the present Protocol shall be contingent upon that of the Central American Agreement on the Equalization of Import Duties and Charges.

Article VIII

The present Protocol shall be open to accession by any Central American State which is a Party to the Central American Agreement on the Equalization of Import Duties and Charges.

Provisional article

The Contracting Parties agree to sign, not later than six months from the date of entry into force of the present instrument, such additional protocols as may be needed for the equalization of import duties and charges on the goods listed in the Central American Agreement on the Equalization of Import Duties and Charges, article III, paragraphs (a), (b), (c) and (d).

Provisional article

The Contracting Parties agree that the tariffs established by virtue of the present Protocol and in the Central American Agreement on the Equalization of Import Duties and Charges shall not necessarily be applicable to goods imported from the Republic of Costa Rica.

Provisional article

The Contracting Parties agree that the tariffs and other provisions set forth in the present Protocol and in the Central American Agreement on the Equalization of Import Duties and Charges ~~are not applicable to~~ natural products imported from the territory of Belize to which Guatemala grants special treatment.

In witness whereof, the respective plenipotentiaries sign the present Protocol in the city of Managua, capital of the Republic of Nicaragua, this thirteenth day of the month of December nineteen hundred and sixty.

For the Government of Guatemala:

Julio Prado Garcia Salas
Minister for Coordinating Central American
Integration

Alberto Fuentes Mohr
Head of the Economic Integration Bureau

For the Government of El Salvador:

Gabriel Pilona Araujo
Minister of Economic Affairs

Abelardo Torres
Under-Secretary for Economic Affairs

For the Government of Honduras:

Jorge Bueso Arias
Minister of Financial and Economic Affairs

For the Government of Nicaragua:

Juan Jose Lugo Marengo
Minister of Economic Affairs

APPENDIX IX

CONVENTION ESTABLISHING THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

The Governments of the Republics of Guatemala, El Salvador, Honduras and Nicaragua agree to create, by virtue of the present Agreement, the Central American Bank for Economic Integration, in accordance with the following provisions:

Chapter I

NATURE, PURPOSE AND HEADQUARTERS

Article I

The Central American Bank of Economic Integration is an international juridical person and shall perform its functions in conformity with the present Agreement and with its Regulations.

Article II

The purpose of the Bank shall be to promote the economic integration and balanced economic development of the member countries. In pursuance of this objective, its activities shall be primarily designed to meet the needs of the following investment sectors:

(a) Infrastructural projects to complete existing regional systems or counterbalance disparities in basic sectors which hinder the balanced economic development of Central America. Consequently, the Bank shall not finance infrastructural projects of purely local or national scope which will not contribute to the completion of the said systems or to the counterbalancing of significant disequilibria as between the member countries;

(b) Projects for long-term investment in industries of a regional character or of importance for the Central American market, which will help to increase the supply of goods available for intra-Central American trade, or for such trade and the export sector. The Bank's activities shall not include investment in essentially local industries;

(c) Co-ordinated agricultural projects aiming at the improvement or expansion of farms or the replacement of less economic by more economic farms and conducive to Central American regional self-sufficiency;

(d) Projects for the financing of enterprises that need to expand their operations, modernize their processes or change the structure of their production in order to improve their efficiency and their competitive capacity within the common market with a view to facilitating free trade among the Central American countries;

(e) Projects for financing services vital to the operation of the common market;

(f) Other productive projects calculated to create economic complementarity among the member countries and to expand intra-Central American trade.

Article III

The Bank shall have its headquarters and head office in the city of Tegucigalpa, in the Republic of Honduras, and shall be empowered to establish branch offices, agencies and correspondents.

Chapter II

CAPITAL, RESERVES AND RESOURCES

Article IV

The Bank's initial authorized capital shall be a sum equivalent to sixteen million United States dollars, to which each of the States members shall subscribe four million dollars, payable in its respective national currency.

One half of the capital subscribed by each member State shall be paid as follows: the equivalent of one million dollars within sixty days from the date of entry into force of the present Agreement, and the equivalent of one million dollars within fourteen months of the said date.

The rest of the capital subscribed shall be payable as and when called in by decision of the Board of Governors, with the concurring vote of at least one Governor from each member state.

The Bank shall be empowered to augment its capital if all the members of the Board of Governors adopt a unanimous decision to that effect.

Article V

The shares of the members States in the capital of the Bank shall be represented by stock certificates issued in favour of the States concerned. These certificates shall confer upon their holders equal rights and obligations, shall not yield interest or dividends and shall not be taxable or transferable.

Such net profits as may accrue to the Bank in the course of its operations shall be deposited in a capital reserve fund.

The responsibility of the members of the Bank, as such, shall be confined to the amount of their capital subscription.

The capital contributed in national currency by each of the member States shall enjoy a guarantee of free convertibility at the official exchange rate most favourable to the Bank.

Each of the member States engages to maintain the value in United States dollars of the capital contribution which it has disbursed to the Bank. Should a change take place in the external official exchange rate for any of the national currencies concerned, the Bank's resources in that currency shall be adjusted in the exact proportion required to maintain their value in United States dollars.

Article VI

In addition to its own capital and reserves, the resources of the Bank shall include the product of loans and credits obtained in capital markets and any other resources received in any legal form.

Chapter III

OPERATIONS

Article VII

The capital, capital reserves and other resources of the Bank shall be used solely for the fulfillment of the purpose set forth in article 2 of the present Agreement. To this end, the Bank shall be empowered:

- (a) To study and promote the investment opportunities created by the economic integration of the member States, duly programming its activities and establishing the necessary financing priorities;
- (b) To make or participate in long- and medium-term loans;
- (c) To issue bonds of its own, which may or may not be guaranteed by means of sureties, pledges or mortgages;
- (d) To participate in the issuance and placing of credit documents of all kinds, related to the fulfillment of its purpose;
- (e) To obtain loans, credits and guarantees from Central American, international and foreign financial institutions;
- (f) To act as intermediary in the concerting of loans and credits for the Governments, public institutions and established enterprises of the member States, to which end it shall institute such arrangements for cooperation with other Central American, international and foreign institutions as it may deem expedient in that connection, and shall be empowered to take part in the preparation of the specific projects concerned;
- (g) To guarantee the commitments of public institutions or private enterprises up to such amounts and for such periods as the Board of Governors may determine;
- (h) To obtain guarantees from the member States for the purpose of securing loans and credits from other financial institutions;
- (i) To provide, using its own resources or those it may obtain for the purpose, executive, administrative and technical advisory services for the benefit of applicants for credit;
- (j) To conduct all such additional business as may be necessary, under the terms of the present Agreement and its Regulations, for the furtherance of its purpose and operation.

Article VIII

The Bank shall finance only economically sound and technically feasible projects and shall refrain from making loans or assuming any responsibility whatsoever for the payment or refinancing of earlier commitments.

Chapter IV

ORGANIZATION AND ADMINISTRATION

Article IX

The Bank shall have a Board of Governors, a Board of Directors, a President and such other officials and employees as may be deemed necessary.

Article X

All the powers of the Bank shall be vested in the Board of Governors. Each member country shall provide two Governors, who shall be absolutely independent in the exercise of their functions and shall have separate votes; one of them shall be the Minister of Economic Affairs or his equivalent, and the other shall be the president or manager of each country's Central Bank, or his equivalent. From among the Governors the Board shall elect a President, who shall remain in office until the next regular meeting of the Board.

Article XI

The Board of Governors shall be at liberto to delegate all its powers to the Board of Directors, except those relating to the following procedures:

- (a) Calling-in of capital contributions;
- (b) Augmentation of the authorized capital;
- (c) Determination of capital reserves on the basis of proposals made by the Board of Directors;
- (d) Election of the President and determination of his emoluments
- (e) Determination of the emoluments of the Directors;
- (f) Examination of the interpretations placed upon the present Agreement by the Board of Directors and ruling thereon in case of appeal;
- (g) Authorization of the conclusion of general agreements relating to cooperation with other agencies;
- (h) Appointment of outside auditors to check financial statements;
- (i) Adoption and publication, following auditor's report, of the over-all balance-sheet and the statement of profits and losses;
- (j) Adoption of decisions, in the event of the Bank's terminating its operations, with respect to the distribution of its net assets.

Article XII

The Board of Governors shall retain full control over all the powers which, in accordance with article 11, it may delegate to the Board of Directors.

Article XIII

The Board of Governors shall convene in regular session once a year. It shall also be at liberto to meet in special session whenever it so determines or whenever it is convened by the Board of Directors. The Board of Directors shall convene the Board of Governors whenever one of the member States so requests.

Article XIV

At the meetings of the Board of Governors, one half the total number of Governors plus one shall constitute a quorum. In all cases except that provided for in article 4, decisions shall be made by the concurring votes of one half of the total number of Governors plus one.

Article XV

The Board of Directors shall be responsible for the conduct of the operations of the Bank and to this end shall be entitled to exercise all the powers delegated to it by the Board of Governors.

Article XVI

There shall be one Director for each State member of the Bank, elected by the Board of Governors. The Directors shall be appointed for a term of five years and shall be eligible for re-election for successive periods. They shall be citizens of the member States and persons of acknowledged capacity and wide experience in economic, financial and banking affairs.

Article XVII

The Directors shall remain in office until their successors are appointed or elected. When a Director's post falls vacant, the Governors shall proceed to appoint a deputy for the remainder of the period.

In the event of a Director's absence for legitimate reasons, the Board of Directors shall be empowered to appoint his temporary substitute.

Article XVIII

The Directors shall work full time in the Bank and shall, in addition, discharge such functions as the President may assign to them.

Article XIX

The Board of Directors shall be of a permanent character and shall operate at the headquarters of the Bank.

The Board of Directors shall determine the basic organization of the Bank, including the number of major administrative and professional posts and the general responsibilities attaching, shall adopt the budget, and shall lay before the Board of Governors proposals for the establishment of reserves.

Article XX

The Board of Governors shall elect from among the Directors the President of the Bank, who shall be its legal representative. Similarly, it shall appoint the person who, should the President himself be prevented from so doing, shall exercise his authority and his functions. The President shall take the chair

at the meetings of the Board of Directors and shall conduct the ordinary business of the Bank. His vote shall carry the same weight as that of the other members, except in the event of a tie, in which case he shall have two votes.

Article XXI

There shall be an Executive Vice-President who shall be appointed by the Board of Directors on the proposal of the President of the Bank. He shall exercise the authority and discharge the administrative functions determined by the Board of Directors.

Article XXII

In the discharge of their functions, the President, officials and employees of the Bank shall be answerable to it alone and shall acknowledge no other authority. The member States shall respect the international character of this obligation.

Article XXIII

The primary consideration to be borne in mind by the Bank in appointing its staff and determining their conditions of service shall be the need to ensure the highest possible degree of efficiency, competence and integrity. Staff shall also be recruited with due regard to equitable geographical distribution.

Article XXIV

The Bank, its officials and its employees - with the exception of the Governors in their respective countries - shall be debarred from taking active part in political affairs.

Chapter V

INTERPRETATION AND ARBITRATION

Article XXV

Any difference of opinion as to the interpretation of the provisions of the present Agreement which may arise between any member and the Bank or among member States shall be submitted for a ruling to the Board of Directors.

The member States especially affected by the difference in question shall have the right to direct representation before the Board of Directors.

Any member State shall be entitled to demand that the solution proposed by the Board of Directors in accordance with the first paragraph of this article shall be submitted to the Board of Governors, whose decision shall be final. Pending the Board's decision, the Bank shall be empowered to take such action as it may deem necessary on the basis of the decision reached by the Board of Directors.

Article XXVI

Should any disagreement arise between the Bank and a State which has ceased to be a member, or between the Bank and one of its members after it has been agreed that the operations of the institution shall be terminated, the controversy shall be submitted for arbitration to a tribunal composed of three persons. The Bank and the State concerned shall each appoint one of the arbiters, and shall jointly appoint a third and disinterested party. Should agreement not be reached with respect to the last mentioned appointment, the third member shall be chosen by lot from among the Presidents of the Supreme Courts of Justice of the member States, with the exception of that of the country concerned.

The third arbiter shall be empowered to decide upon all questions of procedure in cases where the parties are not in agreement.

Chapter VI

IMMUNITIES, EXEMPTIONS AND PRIVILEGES

Article XXVII

The Bank, in the discharge of its functions and in conformity with its purposes, shall enjoy in the territory of the member States the immunities, exemptions and privileges which are set forth in this chapter or which may be otherwise granted to it.

Article XXVIII

It shall be possible to institute judicial proceedings against the Bank only before a competent tribunal in the territory of a member State where the Bank shall have established an office, or where it shall have appointed an agent or legal representative empowered to accept the writ or notice of a judicial complaint, or where it shall have issued or guaranteed securities.

Article XXIX

The Bank's property and other assets, wheresoever situated and whosoever the holder thereof, shall enjoy immunity from attachment, sequestration, embargo, distraint, auction, adjudication or any other form of seizure or alienation or forfeiture, so long as no definitive judgement has been pronounced against the Bank.

The property and other assets of the Bank shall be deemed to be international public property and shall enjoy immunity in respect of investigation, requisition, confiscation, expropriation or any other form of seizure or forfeiture by executive or legislative action.

The Bank's property and other assets shall be exempt from restrictions, regulations, controls and moratoria of every kind, except as otherwise provided in the present Agreement.

Article XXX

The files and records of the Bank shall be inviolable and shall enjoy absolute immunity.

Article XXXI

In territories of the member States the Bank's communications shall be entitled to the same franchises as are granted to official communications.

Article XXXII

The personnel of the Bank, whatever their category, shall enjoy, the following privileges and immunities:

(a) Immunity in respect of judicial, administrative and legislative proceedings relating to acts performed by them in their official capacity, unless the Bank waives such immunity;

(b) In the case of non-nationals of the member State concerned, the same immunities and privileges in respect of immigration restrictions, registration of aliens and military service requirements, and other facilities relating to exchange and travel regulations, which the State grants to other member States in respect of personnel of comparable rank.

Article XXXIII

(a) The Bank, its income, property and other assets, as well as any operations and transactions which it may effect in accordance with the present Agreement, shall be exempt from taxes of every kind and from customs duties and other charges of a similar nature. The Bank shall likewise be exempt from all responsibility in connection with the payment, withholding or collection of any tax, import or duty;

(b) The bonds or securities issued or guaranteed by the Bank, including dividends or interest thereon, whosoever be their holder, shall not be subject to duties or taxes of any kind;

(c) The salaries and emoluments paid by the Bank to its personnel of whatsoever category shall be exempt from taxation.

Chapter VII

REQUIREMENTS FOR OBTAINING GUARANTEES OR LOANS

Article XXXIV

It is hereby established that the members of the Bank shall not be entitled to obtain guarantees or loans from the said institution unless they have previously deposited the instruments of ratification of the following international agreements:

General Treaty on Central American Economic Integration, signed on the same date as the present Agreement;

Multilateral Treaty of Free Trade and Central American Economic Integration, signed on 10 June 1958;

Agreement on the Regime for Central American Integration Industries, signed on 10 June 1958;

Central American Agreement on the Equalization of Import Duties and Charges, signed on 1 September 1959 and the Protocol signed on the same date as the present Agreement.

Chapter VIII

ACCESSION OF NEW MEMBERS

Article XXXV

Central American States not signatories at the present Agreement shall be entitled to accede to it at any time.

Chapter IX

DISSOLUTION AND LIQUIDATION

Article XXXVI

The Bank shall be dissolved:

- (a) By unanimous decision of the member States; or
- (b) When only one of the Parties continues to uphold the present Agreement.

In the event of dissolution, the Board of Governors shall determine the conditions under which the Bank shall terminate its operations, liquidate its obligations and distribute among the member States the surplus capital and reserves remaining after the discharge of the obligations in question.

Chapter X

GENERAL PROVISIONS

Article XXXVII

The present Agreement shall be of unlimited duration and cannot be denounced earlier than twenty years from the date of its entry into force. Denunciation shall become effective five years after its presentation. The Agreement shall remain in force if at least two countries continue to uphold it.

Article XXXVIII

The present Agreement shall enter into force as from the date on which the third instrument of ratification is deposited with the General Secretariat of the Organization of Central American States. For Central American countries acceding to it subsequently, it shall enter into force from the date of deposit of the pertinent instrument with the said Secretariat.

Article XXXIX

In the event of a signatory State's separation from the Bank, the State shall continue to be responsible for its obligations to the Bank, whether direct or deriving from loans, credits or guarantees obtained prior to the date on which the State ceases to be a member. However, it shall not be responsible in respect of loans, credits or guarantees effected subsequently to its withdrawal.

The rights and obligations of the acceding State shall be determined in conformity with the Special Liquidation Balance Sheet which shall be drawn up for the purpose on the date on which the country's separation becomes effective.

Article XL

The Bank shall be empowered to make its facilities available for the organization and operation of a clearing house on behalf of the Central Banks if and when they so request.

Article XLI

The General Secretariat of the Organization of Central American States shall be the depository of the present Agreement and shall transmit certified copies thereof to the Ministry of Foreign Affairs of each of the Contracting States, which it shall immediately notify of the deposit of each of the instruments of ratification, as well as of any denunciation which may be presented. On the entry into force of the Agreement, it shall also transmit a certified copy thereof to the United Nations Secretariat for registration purposes in conformity with Article 102 of the United Nations Charter.

Article XLII

The Bank constituted by virtue of the present Agreement is the institution referred to in resolutions 84 and 101 of the Central American Economic Cooperation Committee, and, in founding it, Guatemala, El Salvador and Honduras are complying with the provisions respecting the establishment of the Development and Assistance Fund laid down in the Economic Association Treaty and the Protocol concluded by them on 8 June 1960.

Provisional article

The amounts advanced by the Governments for the initial expenditure arising from the establishment of the Bank shall be deemed to constitute

part of their capital contributions to the Bank.

Provisional article

The first meeting of the Board of Governors of the Bank shall be convened by the Ministry of Foreign Affairs of the Republic of Honduras at the earliest opportunity and not later than sixty days from the date of entry into force of the present Agreement.

In witness whereof the respective plenipotentiaries sign the present Agreement in the city of Managua, capital of the Republic of Nicaragua, this thirteenth day of the month of December, nineteen hundred and sixty.

For the Government of the Republic of Guatemala:

Julio Prado Garcia Salas
Minister for Co-ordinating Central
American Integration

Alberto Fuentes Mohr
Head of the Economic
Integration Bureau

For the Government of the Republic of El Salvador:

Gabriel Pilona Araujo
Minister of Economic Affairs

Abelardo Torres
Under-Secretary for Economic
Affairs

For the Government of the Republic of Honduras:

Jorge Bueso Arias
Minister of Economic and Financial
Affairs

For the Government of the Republic of Nicaragua:

Juan Jose Lugo Marengo
Minister of Economic Affairs

APPENDIX X

THE PANAMA TREATY

On August 2, 1961, a Treaty of Preferential Interchange and Free Trade between the Republics of Panama, Nicaragua, and Costa Rica (Tratado de Intercambio Preferencial y de Libre Comercio entre las Republicas de Panama, Nicaragua y Costa Rica) was signed at Panama City. Its purpose was "to facilitate the establishment of common markets and the reaching of agreements on reciprocal facilities, with the immediate objective of cooperating in the development and strengthening of agricultural, industrial and commercial activities in these countries".

A distinctive feature of the treaty was that the lists identifying those commodities which were to receive preferential tariff treatment were to be developed after its ratification, thereby minimizing the chances of failure in ratification. These lists were to be prepared within one month after ratification of this treaty, at a meeting of Ministers of Economy (the Permanent Commission) of the three countries. The lists could be modified at will by any contracting party, simply by notifying the Permanent Committee in writing; however, if the items involved with industrial products, 180 days prior notification of change was to be required.

The contracting countries agreed not to levy discriminatory domestic taxes on any of the items identified in the lists of preferences and would permit the free movement of goods in transit. Also, the parties agreed to improve their transportation and communications systems. National treatment of capital was provided, as well as the right, of private entities, to organize and administer productive, mercantile, or financial enterprises in each other's territory. 1/

The duration of the treaty was to be 10 years from the date of its last ratification. Nevertheless, if only two of the signatories ratified it, the treaty was to remain in force bilaterally for the same time period. Nicaragua ratified this treaty in January 1962. 2/

Nicaragua, as a contracting party to the General Treaty of Central American Economic Integration, was obliged under Article XXVIII of that treaty to consult with the Executive Council prior to negotiating new treaties affecting free trade, and to abide by the Council's recommendations in such matters. There was no evidence to indicate that this had been done. Nevertheless, Nicaragua could grant to Costa Rican products (while Costa Rica was not a contracting party to the General Treaty) preferential rates of

1/ U.S. Department of Commerce, Foreign Commerce Weekly, September 11, 1961, p. 11.

2/ Presidential Decree No. 8, published in La Gaceta No. 7 of January 9, 1962.

import duty rather than those in the uniform Central American tariff against non-common market countries. 1/ This treaty appeared to be too flexible to permit much progress toward the establishment of a free-trade area, and there reportedly was little expectation among the signatory states that any substantial increase in their mutual trade would result therefrom. 2/ The set of bilateral commodity lists which were to be negotiated under this treaty did not appear to constitute a customs union or a free-trade area as understood in Article XXIV of the General Agreement on Tariffs and Trade. 3/

1/ The second provisional article of the 1960 Protocol to the Central American Convention on the Equalization of Import Duties and Charges provided that the rates established in the common external tariff "shall not necessarily be applicable to goods imported from the Republic of Costa Rica". Costa Rica had not signed this protocol.

2/ U.S. Foreign Service Despatch No. 57, Nicaragua, August 17, 1961 (Unclassified).

3/ Because of this, the Panama agreement was not included in the frontispiece.

APPENDIX XI

TREATY OF PREFERENTIAL INTERCHANGE AND FREE TRADE BETWEEN THE REPUBLICS OF PANAMA, NICARAGUA AND COSTA RICA

The Governments of the Republics of Panama, Nicaragua and Costa Rica, being duly represented by H. E. Dr. Gilberto Arias, Minister of Finance, H. E. Dr. Juan Jose Lugo Marengo, Minister of Economic Affairs, and H. E. Dr. Jorge Borbon Castro, Minister of Economic Affairs and Finance, respectively, have agreed to conclude a Treaty concerning preferential exchanges and free trade, as follows:

Trade Regime

Article 1. Taking into account the desirability of facilitating the establishment of common markets and the conclusion of agreements concerning reciprocal customs facilities, and with the immediate objective of cooperating for the development and strengthening of agricultural, industrial and commercial activities in the three countries, the Contracting Parties grant a regime of preferential exchanges and free trade in accordance with the terms of the present Treaty.

Article 2. As a first step towards achieving the objective stated in the foregoing article, the natural products originating in the territory of the Contracting Parties and those manufactured in such territory, included in the ~~Three~~ schedules to be drawn up in accordance with Article 5 of the present Treaty, shall enjoy free trade and preferential treatment between the Contracting Parties. Consequently, during the period of validity of the relevant schedules, the said products shall not be subjected to any quantitative restrictions other than those agreed upon pursuant to the said schedules, and products which may be freely traded shall be exempt from all import and export duties and charges including consular fees, or shall be granted preferential treatment as agreed upon, where free trade has not been specified with respect to them.

The exemptions provided for in this article shall not include taxes or charges for lighterage, docking, warehousing and handling of goods, or any other charges which may be legitimately levied by port, warehouse and transport services.

Article 3. Goods originating in any of the Contracting Parties and in respect to which free trade rights or a special regime have been agreed upon shall be subject to such fiscal or municipal charges and levies on production, sale, distribution, trade and consumption as have been or may be established in the importing country; it being understood that such domestic charges and levies on the goods referred to above shall not be different from nor higher during the validity of the respective schedules than those applied to national products of the said importing country.

When the goods included in the above-mentioned schedules are not produced in the importing country and are subject to domestic charges, the importing country shall moreover impose a duty equal to the domestic charge on similar products when imported from third countries.

Article 4. The customs authorities of the Contracting Parties shall grant facilities so that trade established between the Parties may be conducted with the utmost despatch. Imports or exports between the Parties shall be covered by a customs form signed by the exporter which shall include a declaration of origin and shall be submitted for the visa of the customs officers of the countries of shipment and of destination.

Article 5. The three schedules referred to in Article 2 of the present Treaty shall be drawn up in agreement as referred to above by a Standing Committee composed of the Minister of Finance of Panama, the Minister of Economic Affairs of Nicaragua and the Minister of Economic Affairs and Finance of Costa Rica, or their respective representatives. The leader of each delegation shall be responsible for accrediting each member of the delegation in accordance with the domestic legislation of each Party.

The delegates of the countries appointed to draw up each of the schedules by common agreement shall draw up three schedules: one between Panama and Nicaragua, another between Panama and Costa Rica, and the last between Nicaragua and Costa Rica. The products or articles included in each schedule shall enjoy free trade rights or preferential treatment between the countries concerned in accordance with Article 2 of the present Treaty.

Each Contracting Party shall have the right to request the exclusion from or modification in the preferential regime of one or more articles included in its respective schedules, should it deem appropriate for its interests, by merely addressing a written notification to the members of the Standing Committee. The said notification must be submitted with 180 days' advance notice in the case of industrial products, but the schedules shall be renewed automatically one or more times if by the end of November of each year no Contracting Party has proposed their revision. In the event of any revision the Parties shall always endeavour to expand the free trade and preferential regime while maintaining a balance between the respective Contracting Parties.

For the inclusion of one or more articles in any of the schedules drawn up, the requesting country shall address its request to the country in whose schedule it wishes the inclusion to be made; if the latter country accepts, the relevant schedule shall be amended by the addition of the article in question and the two countries concerned shall notify the result to the country in whose schedule no addition has been made.

If a country desires an addition to the schedule of the other two countries, the article concerned shall be considered as having been included if those two countries so agree.

The validity of the schedules and modifications thereto drawn up in accordance with the present Article shall be ratified by a simple exchange of notes between the Contracting Parties concerned.

Article 6. In accordance with the public treaties concluded between the Republic of Panama and the United States of America, in the areas of Panamanian territory subject to limited jurisdiction of the United States of America under the said treaties only natural products originating or manufactured in Panama or the United States of America may be entered and sold, except where it is not possible to obtain them from those sources. Accordingly, the participation of the Republic of Panama in the present Treaty is subject to the condition that the said Treaty shall be applicable to all the territory of the Republic of Panama with the exception of the areas thereof which are subject to limited jurisdiction of the United States of America in pursuance of the above-mentioned public treaties.

General Provisions

Article 7. Any differences which may arise regarding the interpretation or application of any provision of this Treaty shall be settled amicably between the Contracting Parties. If agreement cannot be reached the Parties concerned undertake to appoint and accept the findings of an Inter-American Commission of Arbitration. Pending such findings the effects of the matter under dispute shall be suspended.

Article 8. The present Treaty shall be submitted for constitutional ratification in the three Contracting States and shall be valid for a period of ten years following the last ratification. It shall, nevertheless, be valid on a bilateral basis for the same period if ratified by only two of the three Contracting Parties.

Article 9. Instruments of ratification shall be exchanged in the City of San Jose, Costa Rica.

Transport

Article 10. The signatory States shall endeavour to improve their communications systems in order to facilitate and develop traffic between their territories.

They shall likewise negotiate with a view to equalizing transport charges between their respective countries and the relevant laws and regulations.

Ships and aircraft, whether commercial or private, of any of the Contracting States shall be treated in the ports or airports of other States open to international traffic on the same terms as the ships and aircraft of the latter States.

Land vehicles registered in one of the signatory States shall enjoy the same treatment in the territory of the other States as vehicles registered therein.

Coastal vessels of any of the said States shall receive national treatment in the ports of the other States, and for customs clearance of cargo a declaration signed by the ship-owner shall suffice. The said declaration shall be exempt from the consular visa requirement.

The provisions of the present Article shall apply, without prejudice to the formalities of registration and control applied by each country to the entry, stay or departure of ships, aircraft or vehicles for reasons of a public health, security or police character, or connected with public and fiscal interests.

International Transit

Article 11. Each of the Contracting States shall maintain full freedom of transit through its territory for goods proceeding to or from any of the other signatory States.

Such transit shall not be subject to deductions, discrimination or quantitative restrictions, other than those indicated in Article 2. Should there be traffic congestion or any other form of force majeure, each signatory State shall give equitable attention both to the forwarding of goods intended for its own population and to that of goods in transit to the other States.

Transit operations shall be carried out by the routes prescribed by law for that purpose and be subject to the customs laws and regulations applicable in the transit territory.

Goods in transit shall be exempt from all duties, taxes and other fiscal charges of a municipal or other character, whatever the destination of the goods may be; they may, however, remain subject to payment of the charges normally applicable for services rendered.

Investment

Article 12. Each of the signatory States, acting within its constitutional provisions, shall accord national treatment to capital investment by nationals of the other States and to the right to organize and administer productive, merchant or financial undertakings and to participate therein.

In the event of denunciation of the present Treaty, investments made before the date on which the said denunciation takes effect shall continue to enjoy the advantages mentioned in the present Article.

Transitional Provision

Article 13. Not less than one month following the exchange of ratifications referred to in Article 9, the Contracting Parties, represented by their Ministers of Economic Affairs or of Finance as the case may be, shall meet to draw up the schedules of goods to be made subject to free trade rights or preferential treatment.

Done and signed at Panama City, Republic of Panama, on the second day of August, one thousand nine hundred and sixty one.

Status of Major Central American Economic Integration Treaties, as of September 1, 1962

Name of Agreement	Date of	Ratifications deposited with ODECA 1/					Date of Entry into Force
	Signature	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	
Multilateral Treaty of Central American Free Trade and Economic Integration---	June 10, 1958	:	:	April 29, 1959	June 2, 1959	Apr. 22, 1960	Feb. 17, 1959 June 2, 1959
Convention on the System of Central American Integrated Industries-----	June 10, 1958	:	:	April 29, 1959	June 21, 1959	Apr. 5, 1961	Feb. 17, 1959
Central American Convention on the Equalization of Import Duties and Charges--	Sept. 1, 1959	:	2/	June 30, 1960	July 27, 1960	Aug. 16, 1962	Sept. 29, 1960 September 29, 1960
First Protocol to the Central American Convention on the Equalization of Im- port Duties and Charges----	Sept. 1, 1959	:	-----	June 30, 1960	July 27, 1960	-----	Sept. 29, 1960 September 29, 1960
Treaty of Economic Associa- tion between the Republics of Honduras, Guatemala and El Salvador-----	Feb. 6, 1960	:	-----	April 27, 1960	Apr. 27, 1960	Apr. 27, 1960	----- April 27, 1960
General Treaty of Economic Integration-----	Dec. 13, 1960	:	2/	May 8, 1961	May 5, 1961	Apr. 27, 1962	May 26, 1961 June 3, 1961
Second Protocol to the C.A. Convention on the Equaliza- tion of Import Duties and Charges-----	Dec. 13, 1960	:	2/	May 8, 1961	May 5, 1961	Aug. 16, 1962	May 26, 1961 June 3, 1961

(Cont'd)

Status of Major Central American Economic Integration Treaties, as of September 1, 1962
(Cont'd)

Name of Agreement	Date of	Ratifications deposited with ODECA 1/						Date of Entry
	Signature	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua		into Force
Agreement Establishing the	:	:	:	:	:	:	:	:
Central American Bank for	Dec. 13,	:	May 8,	May 5,	May 5,	May 24,	:	:
Economic Integration-----	1960	2/	1961	1961	1961	1961	May 8,	1961
	:	:	:	:	:	:	:	:

1/ Organization of Central American States, with headquarters at San Salvador, El Salvador.

2/ Signed July 23, 1962.